

To: Interested Parties

From: Carla Glass, Chair
Appraisal Standards Board

Date: July 19, 2005

Re: Third 2005 Exposure Draft on proposed revisions to the *Uniform Standards of Professional Appraisal Practice* (USPAP)

REQUEST FOR WRITTEN COMMENTS

Attached is an Exposure Draft on proposed revisions to the *Uniform Standards of Professional Appraisal Practice* (USPAP) and certain Advisory Opinions relating to:

- The Scope of Work Project as reflected in the SCOPE OF WORK RULE, relevant DEFINITIONS, STANDARDS 1 through 10, and STATEMENTS 9 and 10
- The specific review of STANDARDS 9 and 10
- The proposed revisions to Advisory Opinion 2 (AO-2) *Inspection of Subject Property*
- The proposed new Advisory Opinion 28 (AO-28) *Scope of Work Decision, Performance, and Disclosure*; and the proposed new Advisory Opinion 29 (AO-29) *An Acceptable Scope of Work*

Prior Exposure Drafts have contained proposed revisions regarding these items, with the proposed changes from the 2005 edition of USPAP marked in underline and strikethrough formatting. However, for simplicity and clarity, in this Exposure Draft the USPAP material is shown as it would appear with all proposed edits made, but without using strikethrough and underline formatting. This Exposure Draft contains few proposed modifications from the last Exposure Draft, and these changes are discussed in the rationale.

Rationale in this Exposure Draft is limited to items modified from the most recent Exposure Draft (the Second 2005 Exposure Draft) and items in the bulleted list below. Please refer to the earlier Exposure Drafts that are available on the website of The Appraisal Foundation for additional rationale. Further, a copy of this Exposure Draft with all changes proposed from the text of the 2005 edition of USPAP marked in underline and strikethrough formatting is also available on that website.

Readers are asked to especially note and comment on the following:

- The proposed deletion of the labels “Binding Requirement” and “Specific Requirement” from USPAP
- The proposed edits to Standards Rules 1-4(e), (f) and (g); 6-3(a) and (b); 6-6(e); and 7-4(e), (f) and (g)
- The proposed revisions to Advisory Opinion 2 (AO-2) *Inspection of Subject Property*
- The proposed new Advisory Opinion 28 (AO-28) *Scope of Work Decision, Performance, and Disclosure*
- The proposed new Advisory Opinion 29 (AO-29) *An Acceptable Scope of Work*

Prior to publication, the ASB will make administrative edits to all Statements and Advisory Opinions for consistency with changes made to USPAP.

The 2005 edition of USPAP will remain effective until mid-2006. The next edition of USPAP is expected to be published by January 2006, several months ahead of its effective date (July 1, 2006). This will allow additional time to provide education regarding and implementation of the proposed changes. The 2006 edition of USPAP likely will remain effective through the end of 2006 and all of 2007. The ASB anticipates converting to a two-year USPAP publication cycle in 2008. All dates are tentative and the ASB will revise this schedule if appropriate.

The intent of this Exposure Draft is to obtain comments from appraisers, users of appraisal services, regulators, and the general public. All interested parties are encouraged to comment in writing to the ASB before the deadline of **September 2, 2005**.

Comments on this Exposure Draft will not be taken at the October 28, 2005 public meeting of the ASB in Washington, DC. Therefore, in order for comments to be considered by the ASB, they must be submitted in writing by the September 2, 2005 deadline.

The presentation of each section begins with a discussion of the rationale for the proposed edits. The rationale is identified as such and does not have line numbering so that the reader can more easily distinguish between the rationale and the proposed edits.

For ease in identifying the various issues being addressed, this Exposure Draft is presented in sections.

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Interested parties are urged to submit written comments and/or questions on this Exposure Draft to:

ASB Comments, The Appraisal Foundation, 1029 Vermont Avenue, NW, Suite 900, Washington, DC 20005-3517. Comments may also be submitted by facsimile to (202) 347-7727 or (202) 624-3053, or by e-mail to: comments@appraisalfoundation.org.

Section 1

Proposed Revision of:

Advisory Opinion 2 (AO-2) – *Inspection of Subject Property Real Estate*

Proposed New:

Advisory Opinion 28 (AO-28) – *Scope of Work Decision, Performance, and Disclosure*

Advisory Opinion 29 (AO-29) – *An Acceptable Scope of Work*

RATIONALE:

The ASB edited the versions of these three Advisory Opinions that were included in the second 2005 Exposure Draft in response to comments received and for purposes of clarity. The proposed edits to Advisory Opinion 2 have not been shown in underline and strikethrough formatting because of the number of proposed edits. Advisory Opinions 28 and 29 have not been shown in underline and strikethrough formatting because they are new Advisory Opinions.

Proposed Revision of Advisory Opinion 2 (AO-2) – *Inspection of Subject Property Real Estate*

The ASB has received several comment letters addressing matters related to property inspection. Currently, the Comment to the definition of Scope of Work states that Scope of Work includes, “*the degree to which the property is inspected...*” The language is included in the proposed SCOPE OF WORK RULE. Although this is not a new concept, it has generated significant inquiry.

As a result of the questions and comments presented, the ASB reviewed Advisory Opinion 2 (AO-2), *Inspection of Subject Property Real Estate*. Following is a proposed revision of this Advisory Opinion. Major differences between the proposed Advisory Opinion and the current one include:

- the advice is expanded to apply to both real property and personal property,
- the organizational structure is significantly modified, and
- illustrations have been added.

The intent is not to change the ASB’s advice, but to clarify and better illustrate the guidance.

Proposed New Advisory Opinion 28 (AO-28) - *Scope of Work Decision, Performance, and Disclosure*

USPAP has historically included the concept that the scope of work is determined by the appraiser based on assignment elements that are part of problem identification. The SCOPE OF WORK RULE emphasizes this by including a section entitled *Problem Identification* within the SCOPE OF WORK RULE. The proposed Rule elaborates on problem identification, determination of an appropriate scope of work, and disclosure of the scope of work that was performed.

This proposed Advisory Opinion offers advice regarding how an appraiser can follow the Rule by discussing what the performance of each step entails.

This proposed Advisory Opinion also addresses situations when the planned scope of work changes during performance of the assignment.

Illustrations are provided to clarify the applicability of these procedures in the performance of assignments.

Proposed New Advisory Opinion 29 (AO-29) - *An Acceptable Scope of Work*

For any appraisal assignment, an appraiser must determine the scope of work necessary to develop credible assignment results and be prepared to demonstrate that the scope of work performed is sufficient. Understanding when a scope of work is acceptable is a key concept in the current USPAP. The ASB's Scope of Work Project has focused attention on this important issue.

This proposed Advisory Opinion offers advice regarding the measures of acceptability and illustrates the applicability of the SCOPE OF WORK RULE in the performance of assignments.

1000 **ADVISORY OPINION 2 (AO-2)**

1001 *This communication by the Appraisal Standards Board (ASB) does not establish new standards*
1002 *or interpret existing standards. Advisory Opinions are issued to illustrate the applicability of*
1003 *appraisal standards in specific situations and to offer advice from the ASB for the resolution of*
1004 *appraisal issues and problems.*

1005 **SUBJECT: Inspection of Subject Property**

1006 **APPLICATION: Real Property, Personal Property**

1007 **THE ISSUE:**

1008 For real property and personal property appraisal assignments, USPAP requires the report to
1009 contain a certification indicating whether or not the subject property was personally inspected by
1010 the appraiser(s).

1011 What is the purpose of inspecting the subject property?

1012 Does USPAP mandate a minimum level of property inspection?

1013 What are the disclosure obligations relating to inspection?

1014 **ADVICE FROM THE ASB ON THE ISSUE**

1015 Purpose of an Inspection

1016 The primary reason for inspection of a property is to gather information about the
1017 characteristics of the property that are *relevant* to its value.¹ While there are other ways to
1018 gather such information, in many cases the personal observations of the appraiser are the
1019 primary source of information regarding the subject property.

1020 Minimum Level of Inspection

1021 An inspection is not required by USPAP, but one is often conducted.

1022 The extent of the inspection process is an aspect of the scope of work, and may vary based
1023 on assignment conditions and the intended use of the assignment results.² It is the
1024 appraiser's responsibility to determine the appropriate scope of work, including the degree
1025 of inspection necessary to produce credible assignment results given the intended use.

1026 Every assignment is subject to conditions that limit, in one way or another, the inspection
1027 of the subject property. Regardless of the detail one employs, it is always possible to
1028 perform an inspection that is more thorough. The appraiser's inspection commonly is
1029 limited to those things readily observable without the use of special testing or equipment.

¹ See Advisory Opinion 23 (AO-23), *Identifying the Relevant Characteristics of the Subject Property of a Real Property Appraisal Assignment*

² See Advisory Opinion 28 (AO-28), *Scope of Work Decision, Performance, and Disclosure*

1030 There are situations where inspection of the subject property is not possible; for example, if
1031 the improvements have been destroyed, removed, or not yet built. In other cases the
1032 appraiser is denied access to the property.

1033 An appraiser may use any combination of property inspection, plans and specifications, asset
1034 records, photographs, property sketches, recorded media, etc., to gather information about the
1035 relevant characteristics of the subject property.³ For some assignments, it may be necessary to
1036 rely on reports prepared by other professionals. The appraiser must comply with USPAP
1037 requirements related to reliance on work done by others.

1038 An appraiser cannot develop a credible appraisal if adequate information about the relevant
1039 characteristics of the subject property is not available. When adequate information about
1040 relevant characteristics is not available through a personal inspection or from sources the
1041 appraiser believes are reliable, an appraiser must withdraw from the assignment unless the
1042 appraiser can:

- 1043 ▪ modify the assignment conditions to expand the scope of work to include
- 1044 gathering the necessary information; or
- 1045 ▪ use an extraordinary assumption about such information, if credible assignment
- 1046 results can still be developed.

1047 An inspection conducted by an appraiser is usually not the equivalent of an inspection by an
1048 inspection professional (e.g., a structural engineer, a licensed home inspector, a Renaissance art
1049 expert). An appraiser's observations must, at the minimum, be thorough enough to properly
1050 develop the appraisal and adequately report the relevant characteristics. Regardless of how the
1051 information is gathered, it must be sufficient for the development of relevant analyses, such as
1052 highest and best use, the application of the approaches, etc.

1053 Disclosure Requirements

1054 Appraisal reports for real and personal property must contain a signed certification indicating
1055 whether the appraiser has or has not personally inspected the subject property. All appraisal
1056 reports must also contain sufficient information to enable the intended users to understand the
1057 extent of the inspection that was performed.

1058 Because of the infinite variability of inspections, it is important that the appraisal report clearly
1059 communicates the degree of the inspection in order for the report to be meaningful.⁴

1060 Illustrations

- 1061 1. I have been asked to appraise a single-family home based on an exterior-only inspection from
- 1062 the street. What are my development and reporting obligations?

³ See Comment to Standards Rules 1-2(e) and 7-2(e)

⁴ See Standards Rules 2-2(a)(vii), 2-2(b)(vii), 2-2(c)(vii), 7-2(a)(vii), 7-2(b)(vii) and 7-2(c)(vii)

1063 If an appraiser's observations are limited to an exterior-only inspection from the street,
1064 then the appraiser must gather information on relevant characteristics from other data
1065 sources and/or use extraordinary assumptions.⁵ The data sources used are often the same
1066 sources used to gather information on comparable sales. For example, the size of the
1067 property might be obtained from public records, and other information might be obtained
1068 from interior photographs included in a listing of the property for sale, or information
1069 from the appraiser's own files.

1070 The report must disclose the extent of the property inspection in a manner that is clear to
1071 the intended users. For example, in this case it would probably be insufficient to merely
1072 state that the property was inspected. The report must make clear that the appraisal was
1073 based on an "exterior only" inspection from the street and state the sources used to
1074 identify the relevant characteristics other than those observed during the inspection.

1075 2. A dealer has asked me to appraise a Rolex watch. I will not be provided access to the piece.
1076 However, I have been given the serial number, a copy of an authenticity certificate and
1077 several recent photographs of the watch. Can I develop an appraisal based solely on this
1078 information?

1079 Yes, if the data provided contains sufficient information about the subject's relevant
1080 characteristics, one could develop an appraisal based on the information described in the
1081 illustration. Without directly inspecting the watch, however, the information provided is
1082 "assumed" to be accurate. Because some of these assumptions will have a significant
1083 effect on the assignment results, the assignment will involve the use of extraordinary
1084 assumptions and require proper disclosure. The scope of work in the assignment,
1085 including the degree of the inspection, must provide results that are credible in the
1086 context of the intended use.⁶

1087 3. I have been contacted by a property owner who is being transferred by his company to
1088 another city. The owner indicated that while he might want a "detailed appraisal" later, right
1089 now he only needs a rough idea of the value of the residence to begin negotiations related to
1090 the relocation. The owner has asked me to perform a "desktop" appraisal (i.e., an appraisal
1091 with no inspection of the property). I believe that credible assignment results can be
1092 developed without an inspection. Is this permitted under USPAP?

1093 Yes, this is permitted if sufficient information regarding the relevant characteristics of the
1094 property is available. Such information could be obtained from public records, previous
1095 listings of the property for sale, appraiser's files, etc. If use of extraordinary assumptions
1096 related to various relevant characteristics is necessary, then one must comply with the
1097 requirements for their use.

1098 *This Advisory Opinion is based on presumed conditions without investigation or verification of*
1099 *actual circumstances. There is no assurance that this Advisory Opinion represents the only*
1100 *possible solution to the problems discussed or that it applies equally to seemingly similar*
1101 *situations.*

1102 Approved December 4, 1990
1103 Last Revised xxxxx-xxx-xxxxx

⁵ See Standards Rules 2-2(a)(x), 2-2(b)(x), 2-2(c)(x), 7-2(a)(x), 7-2(b)(x) and 7-2(c)(x)

⁶ See SCOPE OF WORK RULE, Scope of Work Acceptability

1104 **ADVISORY OPINION 28 (AO-28)**

1105 *This communication by the Appraisal Standards Board (ASB) does not establish new standards*
1106 *or interpret existing standards. Advisory Opinions are issued to illustrate the applicability of*
1107 *appraisal standards in specific situations and to offer advice from the ASB for the resolution of*
1108 *appraisal issues and problems.*

1109 **SUBJECT: Scope of Work Decision, Performance, and Disclosure**

1110 **APPLICATION: Real Property, Personal Property, Intangible Property**

1111 **THE ISSUE:**

1112 The SCOPE OF WORK RULE states:

1113 *For each appraisal, appraisal review, and appraisal consulting assignment, an appraiser*
1114 *must:*

1115 *1. identify the problem to be solved;*

1116 *2. determine and perform the scope of work necessary to develop credible*
1117 *assignment results; and*

1118 *3. disclose the scope of work in the report.*

1119 How are the requirements in the SCOPE OF WORK RULE incorporated into the process of
1120 developing and reporting assignment results?

1121 **ADVICE FROM THE ASB ON THE ISSUE**

1122 **Problem Identification**

1123 Problem identification is the beginning point of every assignment. The appraiser must gather and
1124 analyze the information needed to properly recognize the appraisal, appraisal review, or appraisal
1125 consulting problem to be solved. The information necessary for problem identification is
1126 presented in each Standard that addresses the development process for an appraisal, appraisal
1127 review, or appraisal consulting assignment. For example, Standards Rules 1-2, 6-2, 7-2 and 9-2
1128 provide the assignment elements that must be defined and analyzed in order to identify the
1129 problem to be solved in an appraisal assignment. These assignment elements include the:

- 1130
 - client and any other intended users;
 - 1131 • intended use of the appraiser's opinions and conclusions;
 - 1132 • type and definition of value;
 - 1133 • effective date of the appraiser's opinions and conclusions;
 - 1134 • subject of the assignment and its relevant characteristics; and
 - 1135 • assignment conditions.

1136 Identifying the problem to be solved is required in order to make critical judgments in
1137 determining the appropriate scope of work. Therefore, the assignment elements necessary for
1138 problem identification in an appraisal, appraisal review, or appraisal consulting assignment also

1139 serve as reference points in determining whether the scope of work performed was appropriate to
1140 provide credible assignment results.⁷

1141 Additionally, proper identification of the problem to be solved is required for compliance with the
1142 COMPETENCY RULE, which states:

1143 *Prior to accepting an assignment or entering into an agreement to perform any assignment,*
1144 *an appraiser must **properly identify the problem to be addressed and have the knowledge***
1145 ***and experience to complete the assignment competently**; or alternatively, must... (bold*
1146 *added for emphasis)*

1147 One of the assignment elements that may affect the scope of work is assignment conditions.
1148 Some such assignment conditions are not a matter of choice, such as an inability to inspect a
1149 property because it has been destroyed. Other assignment conditions are a matter of choice, such
1150 as a client's request to perform a desktop appraisal of machinery and equipment to reduce fees.

1151 **Determining and Performing the Scope of Work**

1152 USPAP recognizes that the appropriate scope of work may differ significantly for different
1153 assignments; the SCOPE OF WORK RULE provides flexibility in determining the scope of
1154 work. The competency necessary to determine an appropriate scope of work within the allowed
1155 flexibility resides with the appraiser. Therefore, while it is common and reasonable for the client
1156 to provide input to the appraiser regarding a desired scope of work, the responsibility for
1157 determining the appropriate scope of work resides with the appraiser.

1158 The flexibility and responsibility are linked in the SCOPE OF WORK RULE when it states:

1159 *appraisers have broad flexibility and significant responsibility in determining the appropriate*
1160 *scope of work for an appraisal, appraisal review, and appraisal consulting assignment.*

1161 This responsibility is described when the SCOPE OF WORK RULE states:

1162 *The appraiser must be prepared to demonstrate that the scope of work is sufficient to produce*
1163 *credible assignment results.*

1164 The client, for example, might request that the appraiser include, or exclude, specific inspections,
1165 data collection, or analysis in the scope of work. The appraiser may accept an assignment with
1166 these types of assignment conditions provided that the assignment results are credible in the
1167 context of the intended use. The SCOPE OF WORK RULE addresses this issue in the Scope of
1168 Work Acceptability section:

1169 *An appraiser must not allow assignment conditions to limit the scope of work to such a*
1170 *degree that the assignment results are not credible in the context of the intended use.*

1171 *An appraiser must not allow the intended use of an assignment or a client's objectives to*
1172 *cause the assignment results to be biased.*

⁷ See Advisory Opinion 29 (AO 29), *An Acceptable Scope of Work*

Determining the appropriate scope of work requires judgment. This judgment rests on the appraiser's identification of the assignment elements and understanding of what is required to solve the identified problem. In many assignments, experienced appraisers are able to make this judgment about the appropriate scope of work quickly because they have performed many assignments addressing a similar problem to be solved (assignment with similar assignment elements). In other assignments, the determination of the appropriate scope of work may require more analysis by the appraiser because the problem to be solved has certain unusual characteristics. In yet other assignments, the appraiser may begin with a scope of work plan but in the course of the assignment find that the proposed scope of work must be modified in order to produce credible assignment results.

The SCOPE OF WORK RULE recognizes that the scope of work actually performed may differ from the scope of work initially planned, when it states:

Determining the scope of work is an ongoing process in an assignment. Information or conditions discovered during the course of an assignment might cause the appraiser to reconsider the scope of work.

Disclosing the Scope of Work Performed

The SCOPE OF WORK RULE explains that proper disclosure of the scope of work:

...is required because clients and other intended users rely on the assignment results.

The Rule also states that:

The report must contain sufficient information to allow intended users to understand the scope of work.

An appraiser must disclose research and analyses not performed when such disclosure is necessary for intended users to understand the report properly and not be misled.

These requirements address the scope of work performed, rather than the scope of work initially determined by the appraiser. The appraiser must disclose the type and extent of research and analyses that were actually completed in the development process. Additionally, the information required to allow intended users to understand the scope of work may include disclosure of research and analyses not performed. There is no requirement for the scope of work description to be in a particular or separate section of the report.

Illustrations:

1. A real property appraiser is engaged to appraise the market value of a twelve-unit apartment building. The appraiser initially decided that the scope of work should include the inspection of two of each of the three unit types (studio, one- and two-bedroom). In the course of conducting the inspection, the property manager had a key for only one of the two-bedroom units; thus the appraiser was not able to inspect one of the two-bedroom units as planned.

The scope of work, which includes the degree of inspection, was affected in this assignment because of lack of access. If the appraiser decides that she has sufficient information to produce credible assignment results, the appraiser can complete the appraisal based on the

- 1211 inspection completed. The report would include a description of the scope of work
1212 performed, stating that five units had been inspected.
- 1213 2. A personal property appraiser was engaged to appraise four sets of china. The intended use of
1214 the report was for litigation regarding an estate. The client requested that all pieces of each set
1215 of china be inspected, since one cause of action claimed that several pieces were damaged.
- 1216 When the appraiser contacted the estate's administrator to arrange for inspection, he was told
1217 that one set of china was in storage and could not be retrieved until after the Court's deadline
1218 for the submission of expert reports.
- 1219 In this case, assignment conditions have changed the appraiser's scope of work. The appraiser
1220 may not have sufficient information to produce credible assignment results in the context of
1221 the intended use. The appraiser should consult with the client on the proper course of action.
1222 The appraiser may alter the scope of work to include the appraisal of only the three sets of
1223 china available for inspection or use an extraordinary assumption regarding the condition of
1224 the fourth set.
- 1225 3. A business appraiser is appraising a closely held business enterprise with real property and
1226 personal property assets. In the course of the assignment, the appraiser's research indicates
1227 that the market for the company's product is declining and management's projections are not
1228 supported. Therefore, the appraiser believes the company might be worth more in liquidation
1229 than as a going concern, which would make performance of the work addressed in Standards
1230 Rule 9-3 necessary for credible assignment results.
- 1231 The scope of work must be modified because of what the appraiser learned in the course of
1232 performing research and analyses.
- 1233 4. A real property appraiser is contacted by a potential client to appraise an occupied
1234 manufacturing facility. The client requests that the occupants not be disturbed by a property
1235 inspection. Additionally, the client requests that the cost approach be performed in the
1236 appraisal of the building. These requests are assignment conditions and will be part of the
1237 appraiser's identification of the problem to be solved and determination of the appropriate
1238 scope of work.
- 1239 Accepting and completing this assignment requires the appraiser to:
- 1240 • Determine that the client's assignment conditions do not limit the scope of work to
1241 such a degree that assignment results are not credible in the context of the intended
1242 use;
 - 1243 • Gather information on relevant characteristics by means other than inspection and/or
1244 use extraordinary assumptions; and
 - 1245 • Include a cost approach in the scope of work, even though this approach is not
1246 otherwise necessary for credible assignment results.
- 1247 Additionally, use of the information gained from pursuit of the cost approach must be
1248 determined to not bias the assignment results.
- 1249 5. A real property appraiser accepted an assignment to appraise a three-unit residential property.
1250 The intended use of the appraisal is for mortgage financing. The client requested that the

1251 appraiser not verify the legal status (e.g., compliance with zoning, building codes, use
1252 permits) of the three units with municipal officials.

1253 The appraiser withdrew from the assignment because she concluded that the client's
1254 assignment condition limited the scope of work to such a degree that assignment results are
1255 not credible in the context of the intended use. The use of an extraordinary assumption about
1256 the legal use of the property would not produce credible assignment results in the context of
1257 the mortgage financing use.

1258 6. An appraiser was engaged to appraise a one-unit residence. Based on the appraiser's
1259 identification of the appraisal problem, the appropriate scope of work was determined to
1260 include development of the sales comparison approach and cost approach. However, at the
1261 time of the inspection the appraiser discovered that the property was not a one-unit, but
1262 instead a three-unit property.

1263 Based on this new information, the appraiser re-considered the appraisal problem and the
1264 appropriate scope of work. The change in relevant property characteristics for the subject
1265 property significantly changes the appropriate scope of work; the initial scope of work plan is
1266 no longer suitable and would not produce credible assignment results. The type of data to be
1267 researched and the type of analysis to be applied is changed when the property type changed
1268 from a single-unit to a three-unit. For this new appraisal problem, the appropriate scope of
1269 work was determined to include an income approach, and the cost approach is not necessary
1270 for credible assignment results.

1271 The appraiser should consult with the client since the initial scope of work plan no longer
1272 applies in the assignment.

1273 *This Advisory Opinion is based on presumed conditions without investigation or verification of*
1274 *actual circumstances. There is no assurance that this Advisory Opinion represents the only*
1275 *possible solution to the problems discussed or that it applies equally to seemingly similar*
1276 *situations.*

1277 Approved XXXX XX, XXXX
1278

1279 **ADVISORY OPINION 29 (AO-29)**

1280 *This communication by the Appraisal Standards Board (ASB) does not establish new standards*
1281 *or interpret existing standards. Advisory Opinions are issued to illustrate the applicability of*
1282 *appraisal standards in specific situations and to offer advice from the ASB for the resolution of*
1283 *appraisal issues and problems.*

1284 **SUBJECT:** An Acceptable Scope of Work

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1286 **APPLICATION:** Real Property, Personal Property, Intangible Property

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1288 **THE ISSUE:**

1289 The SCOPE OF WORK RULE states that an appraiser's scope of work is acceptable when it
1290 meets or exceeds:

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- 1292 • *the expectations of parties who are regularly intended users for similar assignments; and*
- 1293 • *what an appraiser's peers' actions would be in performing the same or similar*
- 1294 *assignment.*

1295

1296 What makes an assignment similar?

1297

1298 Who are an appraiser's peers?

1299

1300 Must an acceptable scope of work satisfy both benchmarks?

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1302

1303 **ADVICE FROM THE ASB ON THE ISSUE**

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1305 **Similar Assignments**

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1307 Assignment elements define and characterize the problem to be solved in appraisal, appraisal
1308 review, and appraisal consulting assignments. The assignment elements necessary for proper
1309 identification of the appraisal problem are addressed in the applicable Standards Rules (i.e., SR 1-
1310 2, SR 3-1, SR 4-2, SR 6-2, SR 7-2 and SR 9-2).

1311

1312 Assignments are similar when the assignment elements used to identify the appraisal problem are
1313 comparable. Assignment elements include such things as the intended use, intended users, type
1314 and definition of value, effective date, relevant characteristics of the subject property, and
1315 assignment conditions.

1316

1317 The information gathered about the assignment elements is used by the appraiser to identify the
1318 problem to be solved and determine an acceptable scope of work. The greater the commonality
1319 among assignment elements, the more similarity there is between assignments.

1320

1321 **An Appraiser's Peers**

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1323 USPAP defines Appraiser's Peers as:

1324

1325 *other appraisers who have expertise and competency in a similar type of assignment.*

1326

To be an appraiser's peer for a particular assignment, one must have the competency to address the appraisal problem presented in that assignment. This includes the knowledge and experience to:

- properly identify the appraisal, appraisal review, or appraisal consulting problem to be solved;
- determine the type and extent of research and analyses to include in the development process; and
- perform the required research and analyses properly.

Because assignments can require different types of expertise and competency, it is possible to be considered an appraiser's peer for some assignments, but not for others. Identifying an appraiser's peer is always done in the context of a particular assignment.

Within appraisal practice, there are three disciplines, and within those disciplines there are many areas of specific expertise. An appraiser can have a focused area of expertise and competency or a wide variety of expertise and competency. Merely holding the same type or level of credential does not make one an appraiser's peer.

Determining whether an appraiser should be considered an appraiser's peer requires examining the level of expertise regarding each of the assignment elements that define the assignment. For example, having expertise in appraising the same type of property is not sufficient to make someone an appraiser's peer.

Application

The scope of work is acceptable when it results in credible assignment results. The SCOPE OF WORK RULE establishes two benchmarks for measuring the acceptability of the scope of work, both of which need to be met. The scope of work is acceptable when it meets or exceeds **both** (1) the expectations of parties who are regularly intended users for similar assignments; and (2) what an appraiser's peers' actions would be in performing the same or similar assignment. An acceptable scope of work must satisfy both benchmarks. These benchmarks are tools to determine whether the scope of work performed resulted in credible assignment results.

Illustrations:

1. An appraiser has been engaged to perform an "exterior only" appraisal to evaluate a single-family home for a potential home equity loan. Another appraiser has been asked to appraise a single-family home in the same development to evaluate the collateral for an FHA loan. Since the subject properties are similar, would they require the same scope of work?

No. The subject of the assignment and its relevant characteristics is just one of several assignment elements that define an appraisal problem. Because of critical differences in the intended use and the appraisal problem to be solved, the scope of work that is acceptable for the first assignment would not be acceptable for the second assignment. For example, an appraisal performed for an FHA loan is subject to additional inspection requirements.

2. A state certified general appraiser is appraising a highly specialized industrial facility, and is concerned that the assignment is so complex that many appraisers who are knowledgeable

about industrial property would not be qualified to judge whether or not the scope of work was appropriate. Who would be considered the appraiser's peers in this assignment?

The appraiser's peers for this assignment would be other appraisers competent to complete a similar assignment. If special expertise is required, other state certified general appraisers in the same state without the required expertise and knowledge would not be the appraiser's peers for this assignment. Identifying appraisers with expertise and competency in appraising similar complex property types or unusual intended uses may require seeking appraisers from other geographic areas.

3. An investor considering purchase of a company needs an appraisal of the company to determine if the asking price is reasonable. The type of value would be investment value. The appraiser hired has significant experience in the industry of the target company, but the experience is in assignments performed for gift and estate tax purposes, using the IRS definition of fair market value. The investor purchases the company based on the work of the appraiser, but later believes that he has overpaid. In the process of determining if the appraisal results were faulty, a second appraiser is hired who has expertise similar to that of the first appraiser. Does this second appraiser qualify as an appraiser's peer for this assignment?

No. An appraiser's peer is defined as one who has expertise and competency in a similar type of assignment. This means in a type of assignment similar to the one being performed. In this illustration, the second appraiser has expertise and competency in the same types of assignments as the first appraiser. However, the second appraiser does not have expertise and competency in assignments similar to the subject assignment. Both the intended use and the type and definition of value for assignments in which the second appraiser has expertise and competence differ from those in the subject assignment.

4. A business appraiser is engaged to value a 25% minority interest in the equity of a small privately held company for estate tax reporting purposes. The standard of value is fair market value as defined in the tax regulations. The engagement requires that a second appraiser, meeting the definition of an appraiser's peer, be retained to review the work and to opine on the value of the subject interest. Another appraiser is experienced in valuing companies in the same industry, but typically appraises them for purposes of sale, valuing 100% of the equity and has never performed appraisals of minority interests for estate tax reporting purposes. Is this other appraiser an appraiser's peer for this assignment?

No. Part of problem identification for a business appraisal includes identification of the extent to which the subject interests contain elements of ownership control. Part of the appraisal process includes analyzing the effect on value, if any, of the extent to which the interests appraised contain elements of ownership control. Individuals who meet the definition of appraiser's peers would need to have expertise and competency in valuing minority interests. Additionally, the fact that the second appraiser has not performed appraisals for the same intended use could also render him or her to not be a peer in this assignment.

5. An appraiser has agreed to complete an assignment in the next two days. While conducting research, the appraiser discovers that the primary data source for the assignment, a regional computer database, is off-line and will not be available for three days. What is the appropriate course of action?

1424 If an appraiser is unable to perform research that the appraiser's peers would conduct and
1425 intended users would expect, the appraiser must modify the assignment to allow time for the
1426 research to be conducted, or withdraw from the assignment.

1427

1428 *This Advisory Opinion is based on presumed conditions without investigation or verification of*
1429 *actual circumstances. There is no assurance that this Advisory Opinion represents the only*
1430 *possible solution to the problems discussed or that it applies equally to seemingly similar*
1431 *situations.*

1432 Approved XXXX XX, XXXX

1433

Section 2 – Proposed Edits to 2005 Edition of USPAP Regarding:

Key Definitions

Proposed New SCOPE OF WORK RULE

STANDARDS 1 through 10

STATEMENTS 9 and 10

This section of the Third 2005 Exposure Draft contains most of the proposed revised USPAP (including edits related to the Scope of Work Project and to the specific review of STANDARDS 9 and 10) without underline and strikethrough formatting for purposes of simplicity and clarity. Therefore, it includes

- Proposed edits to definitions related to the Scope of Work Project
- The proposed SCOPE OF WORK RULE
- Proposed edits to STANDARDS 1 through 10
- Proposed edits to STATEMENTS 9 and 10

(Readers may also find edits proposed to the PREAMBLE and the Rules related to the Scope of Work project in the Second 2005 Exposure Draft on the website of The Appraisal Foundation.)

However, the following rationale addresses only two matters – proposed modifications made since the most recent Exposure Draft (the Second 2005 Exposure Draft) and certain edits proposed related to the Scope of Work Project on which the ASB is specifically requesting comment.

Additional rationale regarding all proposed edits to the existing 2005 USPAP, from prior concept papers and Exposure Drafts, may be found on the website of The Appraisal Foundation (www.appraisalfoundation.org). Also, if the reader prefers to see the material in this Exposure Draft in underline and strikethrough formatting showing proposed edits relative to the existing 2005 USPAP, that version is also available on the website of The Appraisal Foundation.

RATIONALE:

As stated above, the following Rationale addresses only two matters.

First, there are two areas of change proposed as part of the Scope of Work Project regarding which the ASB is especially requesting comment. These two portions are:

- The proposed deletion of the labels “Binding Requirement” and “Specific Requirement” from USPAP
- The proposed edits to Standards Rules 1-4(e), (f) and (g); 6-3(a) and (b); 6-6(e); and 7-4(e), (f) and (g)

Therefore, a brief rationale is included regarding these two portions of the proposed edits.

Second, all proposed changes from the second 2005 Exposure Draft are discussed. Each of these edits has been made in response to public comment and/or for purposes of clarity.

ITEMS ON WHICH THE ASB IS REQUESTING SPECIFIC COMMENT

Proposed Deletion of the Labels “Binding Requirement” and “Specific Requirement” from USPAP

As a part of the Scope of Work Project, the wording of each Standards Rule (as required) has been edited to clarify requirements to complete the work addressed in that Standards Rule. Because of this clarification, use of the labels Binding Requirement and Specific Requirement are unnecessary, and deletion of these terms is proposed.

Based on comments received, the ASB believes that use of the labels “Binding Requirement” and “Specific Requirement” is redundant and potentially confusing. To avoid such confusion, and considering that the proposed revised language found in each Standards Rule can stand alone without labels, the ASB is proposing deletion of the use of the labels “Binding Requirement” and “Specific Requirement” within USPAP.

Proposed edits to Standards Rules 1-4(e), (f) and (g); 6-3(a) and (b); 6-6(e); and 7-4(e), (f) and (g)

In Standards Rule 1-4, numerous edits were made to incorporate the SCOPE OF WORK RULE concept that an appraiser must perform any and all analyses necessary for credible assignment results.

Standards Rules 1-4 (e) and (f) were restructured for clarity.

The obligations of Standards Rule 1-4(g) were edited to clarify those obligations. Real property appraisers may have the competence to appraise assets containing some elements of personal property or intangible property. However, if the non-real property assets are valued separately, the same real property appraiser might or might not have the needed competence. In some instances, real property appraisers have developed the value of personal property and/or intangible assets, labeling the results “allocations.” Opinions of value of portions of the overall subject property that are not real property are appraisals, and must be performed by appraisers with the appropriate competence. The edits to Standards Rule 1-4(g) identify and clarify these issues.

The requirements of Standards Rule 1-4(d) through (g) are necessary for credible assignment results when the identified conditions are present.

Edits are proposed for similar reasons to Standards Rules 6-3(a) and (b); 6-6(e); and 7-4(e), (f) and (g).

ITEMS THAT HAVE BEEN EDITED SINCE THE SECOND 2005 EXPOSURE DRAFT

Edits to the Proposed SCOPE OF WORK RULE that are Different from the Second 2005 Exposure Draft

In the Scope of Work Acceptability section of the SCOPE OF WORK RULE, it is proposed that the Comment be edited as follows (the proposed new text is underlined).

Comment: If relevant information is not available because of assignment conditions that limit research opportunities (such as conditions that place limitations on inspection or information gathering), an appraiser must withdraw from the assignment unless the appraiser can:

- *modify the assignment conditions to expand the scope of work to include gathering the information; or*
- *use an extraordinary assumption about such information, if credible assignment results can still be developed.*

In the Disclosure Obligations section of the SCOPE OF WORK RULE, the first sentence has been edited by adding the word “performed” at the end to make it clear that the appraiser must disclose the scope of work actually performed rather than the scope of work initially planned.

Proposed Edits to STANDARDS 1 through 10 that are Different from the Second 2005 Exposure Draft

The following edits are proposed to improve clarity and consistency.

STANDARDS 1, 4, 7 AND 9

- In the Standard, the word “determine” has been inserted before “*the scope of work necessary...*”

STANDARDS RULES

- The language in the SCOPE OF WORK RULE regarding the disclosure of research and analyses performed and not performed has been added at the end of the first paragraph in the Comment to SR 2-2(a)(vii), 2-2(b)(vii) and 2-2(c)(vii); SR 3-2(c); SR 5-2(f); SR 6-8(j); SR 8-2(a)(vii), 8-2(b)(vii) and 8-2(c)(vii); and SR 10-2(a)(viii) and -10-2(b)(viii).
- The requirement to explain the omission of an approach to value has been moved from SR 2-2(a)(vii), 2-2(b)(vii) and 2-2(c)(vii) to SR 2-2(a)(viii), 2-2(b)(viii) and 2-2(c)(viii), from SR 8-2(a)(vii), 8-2(b)(vii) and 8-2(c)(vii) to SR 8-2(a)(viii), 8-2(b)(viii) and 8-2(c)(viii) and from 10-2(a)(viii) and 10-2(b)(viii) to 10-2(a)(ix) and 10-2(b)(ix), respectively.

Proposed Edits to STATEMENT 10 that are Different from the Second 2005 Exposure Draft

In response to comment from the interagency appraisal working group, references to residential tract development in item E.4 are proposed for deletion.

3000 **DEFINITIONS**
3001

3002 **APPRAISAL:** (noun) the act or process of developing an opinion of value; an opinion of value.
3003 (adjective) of or pertaining to appraising and related functions such as appraisal
3004 practice or appraisal services.

3005 Comment: An appraisal must be numerically expressed as a specific amount, as a
3006 range of numbers, or as a relationship (e.g., not more than, not less than) to a
3007 previous value opinion or numerical benchmark (e.g., assessed value, collateral
3008 value).
3009

3010 **CREDIBLE:** worthy of belief.

3011 Comment: Credible assignment results require support, by relevant evidence and
3012 logic, to the degree necessary for the intended use.

3013

3014 **SCOPE OF WORK:** the type and extent of research and analyses in an assignment.

3015
3016

3017 **APPRAISER'S PEERS:** other appraisers who have expertise and competency in a similar type
3018 of assignment.

3019 **SCOPE OF WORK RULE**

3020 **For each appraisal, appraisal review, and appraisal consulting assignment, an appraiser**
3021 **must:**

- 3022 **1. identify the problem to be solved;**
3023 **2. determine and perform the scope of work necessary to develop credible assignment**
3024 **results; and**
3025 **3. disclose the scope of work in the report.**

3026 **An appraiser must properly identify the problem to be solved in order to determine the**
3027 **appropriate scope of work. The appraiser must be prepared to demonstrate that the scope**
3028 **of work is sufficient to produce credible assignment results.**

3029 Comment: Scope of work includes, but is not limited to:

- 3030 • the extent to which the property is identified;
3031 • the extent to which tangible property is inspected;
3032 • the type and extent of data researched; and
3033 • the type and extent of analyses applied to arrive at opinions or conclusions.

3034 Appraisers have broad flexibility and significant responsibility in determining the
3035 appropriate scope of work for an appraisal, appraisal review, and appraisal consulting
3036 assignment.

3037 Credible assignment results require support by relevant evidence and logic. The
3038 credibility of assignment results is always measured in the context of the intended use.

3039 **Problem Identification**

3040 **An appraiser must gather and analyze information about those assignment elements that**
3041 **are necessary to properly identify the appraisal, appraisal review or appraisal consulting**
3042 **problem to be solved.**

3043 Comment: The assignment elements necessary for problem identification are addressed
3044 in the applicable Standards Rules (i.e., SR 1-2, SR 3-1, SR 4-2, SR 6-2, SR 7-2 and SR
3045 9-2). In an appraisal assignment, for example, identification of the problem to be
3046 solved requires the appraiser to identify the following assignment elements:

- 3047 • client and any other intended users;
3048 • intended use of the appraiser's opinions and conclusions;
3049 • type and definition of value;
3050 • effective date of the appraiser's opinions and conclusions;
3051 • subject of the assignment and its relevant characteristics; and
3052 • assignment conditions.

3053 This information provides the appraiser with the basis for determining the type and
3054 extent of research and analyses to include in the development of an appraisal. Similar
3055 information is necessary for problem identification in appraisal review and appraisal
3056 consulting assignments.

3057 Communication with the client is required to establish most of the information
3058 necessary for problem identification. However, the identification of relevant
3059 characteristics is a judgment made by the appraiser that requires competency in that
3060 type of assignment.

3061 Assignment conditions include assumptions, extraordinary assumptions, hypothetical
3062 conditions, supplemental standards, jurisdictional exceptions, and other conditions that
3063 affect the scope of work.

3064 **Scope of Work Acceptability**

3065 **The scope of work must include the research and analyses that are necessary to develop**
3066 **credible assignment results.**

3067 Comment: The scope of work is acceptable when it meets or exceeds:

- 3068 • the expectations of parties who are regularly intended users for similar
3069 assignments; and
- 3070 • what an appraiser's peers' actions would be in performing the same or a similar
3071 assignment.

3072 Determining the scope of work is an ongoing process in an assignment. Information or
3073 conditions discovered during the course of an assignment might cause the appraiser to
3074 reconsider the scope of work.

3075 An appraiser must be prepared to support the decision to exclude any investigation,
3076 information, method, or technique that would appear relevant to the client, another
3077 intended user, or the appraiser's peers.

3078 **An appraiser must not allow assignment conditions to limit the scope of work to such a**
3079 **degree that the assignment results are not credible in the context of the intended use.**

3080 Comment: If relevant information is not available because of assignment conditions
3081 that limit research opportunities (such as conditions that place limitations on inspection
3082 or information gathering), an appraiser must withdraw from the assignment unless the
3083 appraiser can:

- 3084 • modify the assignment conditions to expand the scope of work to include
3085 gathering the information; or
- 3086 • use an extraordinary assumption about such information, if credible assignment
3087 results can still be developed.

3088 **An appraiser must not allow the intended use of an assignment or a client's objectives to**
3089 **cause the assignment results to be biased.**

3090 **Disclosure Obligations**

3091 **The report must contain sufficient information to allow intended users to understand the**
3092 **scope of work performed.**

3093 Comment: Proper disclosure is required because clients and other intended users rely on the
3094 assignment results. Sufficient information includes disclosure of research and analyses
3095 performed and might also include disclosure of research and analyses not performed.

3096 **STANDARD 1: REAL PROPERTY APPRAISAL, DEVELOPMENT**

3097 **In developing a real property appraisal, an appraiser must identify the problem to be**
3098 **solved, determine the scope of work necessary to solve the problem, and correctly complete**
3099 **research and analyses necessary to produce a credible appraisal.**

3100 Comment: STANDARD 1 is directed toward the substantive aspects of
3101 developing a credible appraisal of real property. The requirements set forth in
3102 STANDARD 1 follow the appraisal development process in the order of topics
3103 addressed and can be used by appraisers and the users of appraisal services as a
3104 convenient checklist.

3105 **Standards Rule 1-1**

3106 **In developing a real property appraisal, an appraiser must:**

3107 **(a) be aware of, understand, and correctly employ those recognized methods and**
3108 **techniques that are necessary to produce a credible appraisal;**

3109 Comment: This Standards Rule recognizes that the principle of change continues
3110 to affect the manner in which appraisers perform appraisal services. Changes and
3111 developments in the real estate field have a substantial impact on the appraisal
3112 profession. Important changes in the cost and manner of constructing and
3113 marketing commercial, industrial, and residential real estate as well as changes in
3114 the legal framework in which real property rights and interests are created,
3115 conveyed, and mortgaged have resulted in corresponding changes in appraisal
3116 theory and practice. Social change has also had an effect on appraisal theory and
3117 practice. To keep abreast of these changes and developments, the appraisal
3118 profession is constantly reviewing and revising appraisal methods and techniques
3119 and devising new methods and techniques to meet new circumstances. For this
3120 reason, it is not sufficient for appraisers to simply maintain the skills and the
3121 knowledge they possess when they become appraisers. Each appraiser must
3122 continuously improve his or her skills to remain proficient in real property
3123 appraisal.

3124 **(b) not commit a substantial error of omission or commission that significantly affects**
3125 **an appraisal; and**

3126 Comment: An appraiser must use sufficient care to avoid errors that would
3127 significantly affect his or her opinions and conclusions. Diligence is required to
3128 identify and analyze the factors, conditions, data, and other information that
3129 would have a significant effect on the credibility of the assignment results.

3130 **(c) not render appraisal services in a careless or negligent manner, such as by making a**
3131 **series of errors that, although individually might not significantly affect the results**
3132 **of an appraisal, in the aggregate affects the credibility of those results.**

3133 Comment: Perfection is impossible to attain, and competence does not require
3134 perfection. However, an appraiser must not render appraisal services in a careless
3135 or negligent manner. This Standards Rule requires an appraiser to use due
3136 diligence and due care.

3137 **Standards Rule 1-2**

3138 **In developing a real property appraisal, an appraiser must:**

3139 **(a) identify the client and other intended users;**

3140 **(b) identify the intended use of the appraiser's opinions and conclusions;**

3141 Comment: An appraiser must not allow the intended use of an assignment or a
3142 client's objectives to cause the assignment results to be biased.

3143 **(c) identify the type and definition of value, and, if the value opinion to be developed is**
3144 **market value, ascertain whether the value is to be the most probable price:**

3145 **(i) in terms of cash; or**

3146 **(ii) in terms of financial arrangements equivalent to cash; or**

3147 **(iii) in other precisely defined terms; and**

3148 **(iv) if the opinion of value is to be based on non-market financing or financing**
3149 **with unusual conditions or incentives, the terms of such financing must be**
3150 **clearly identified and the appraiser's opinion of their contributions to or**
3151 **negative influence on value must be developed by analysis of relevant**
3152 **market data;**

3153 Comment: When developing an opinion of market value, the appraiser
3154 must also develop an opinion of reasonable exposure time linked to the
3155 value opinion.

3156 **(d) identify the effective date of the appraiser's opinions and conclusions;**

3157 **(e) identify the characteristics of the property that are relevant to the type and**
3158 **definition of value and intended use of the appraisal, including:**

3159 **(i) its location and physical, legal, and economic attributes;**

3160 **(ii) the real property interest to be valued;**

3161 **(iii) any personal property, trade fixtures, or intangible items that are not real**
3162 **property but are included in the appraisal;**

3163 **(iv) any known easements, restrictions, encumbrances, leases, reservations,**
3164 **covenants, contracts, declarations, special assessments, ordinances, or other**
3165 **items of a similar nature; and**

3166 **(v) whether the subject property is a fractional interest, physical segment, or**
3167 **partial holding;**

3168 Comment on (i)–(v): The information used by an appraiser to identify the
3169 property characteristics must be from sources the appraiser reasonably
3170 believes are reliable.

- 3171 An appraiser may use any combination of a property inspection and
3172 documents, such as a physical legal description, address, map reference,
3173 copy of a survey or map, property sketch, or photographs, to identify the
3174 relevant characteristics of the subject property.
- 3175 When appraising proposed improvements, an appraiser must examine
3176 and have available for future examination, plans, specifications, or other
3177 documentation sufficient to identify the scope and character of the
3178 proposed improvements.
- 3179 Identification of the real property interest appraised can be based on a
3180 review of copies or summaries of title descriptions or other documents
3181 that set forth any known encumbrances.
- 3182 An appraiser is not required to value the whole when the subject of the
3183 appraisal is a fractional interest, a physical segment, or a partial holding.
- 3184 (f) **identify any extraordinary assumptions necessary in the assignment;**
- 3185 Comment: An extraordinary assumption may be used in an assignment only if:
- 3186 • it is required to properly develop credible opinions and conclusions;
 - 3187 • the appraiser has a reasonable basis for the extraordinary assumption;
 - 3188 • use of the extraordinary assumption results in a credible analysis; and
 - 3189 • the appraiser complies with the disclosure requirements set forth in USPAP
3190 for extraordinary assumptions.
- 3191 (g) **identify any hypothetical conditions necessary in the assignment; and**
- 3192 Comment: A hypothetical condition may be used in an assignment only if:
- 3193 • use of the hypothetical condition is clearly required for legal purposes, for
3194 purposes of reasonable analysis, or for purposes of comparison;
 - 3195 • use of the hypothetical condition results in a credible analysis; and
 - 3196 • the appraiser complies with the disclosure requirements set forth in USPAP
3197 for hypothetical conditions.
- 3198 (h) **determine the scope of work necessary to produce credible assignment results in**
3199 **accordance with the SCOPE OF WORK RULE.**
- 3200 **Standards Rule 1-3**
- 3201 **When necessary for credible assignment results in developing a market value opinion, an**
3202 **appraiser must:**
- 3203 (a) **identify and analyze the effect on use and value of existing land use regulations,**
3204 **reasonably probable modifications of such land use regulations, economic supply**
3205 **and demand, the physical adaptability of the real estate, and market area trends;**
3206 **and**
- 3207 Comment: An appraiser must avoid making an unsupported assumption or
3208 premise about market area trends, effective age, and remaining life.

3209 **(b) develop an opinion of the highest and best use of the real estate.**

3210 Comment: An appraiser must analyze the relevant legal, physical, and economic
3211 factors to the extent necessary to support the appraiser's highest and best use
3212 conclusion(s).

3213 **Standards Rule 1-4**

3214 **In developing a real property appraisal, an appraiser must collect, verify, and analyze all**
3215 **information necessary for credible assignment results.**

3216 **(a) When a sales comparison approach is necessary for credible assignment results, an**
3217 **appraiser must analyze such comparable sales data as are available to indicate a**
3218 **value conclusion.**

3219 **(b) When a cost approach is necessary for credible assignment results, an appraiser**
3220 **must:**

3221 **(i) develop an opinion of site value by an appropriate appraisal method or**
3222 **technique;**

3223 **(ii) analyze such comparable cost data as are available to estimate the cost new**
3224 **of the improvements (if any); and**

3225 **(iii) analyze such comparable data as are available to estimate the difference**
3226 **between the cost new and the present worth of the improvements (accrued**
3227 **depreciation).**

3228 **(c) When an income approach is necessary for credible assignment results, an appraiser**
3229 **must:**

3230 **(i) analyze such comparable rental data as are available and/or the potential**
3231 **earnings capacity of the property to estimate the gross income potential of**
3232 **the property;**

3233 **(ii) analyze such comparable operating expense data as are available to estimate**
3234 **the operating expenses of the property;**

3235 **(iii) analyze such comparable data as are available to estimate rates of**
3236 **capitalization and/or rates of discount; and**

3237 **(iv) base projections of future rent and/or income potential and expenses on**
3238 **reasonably clear and appropriate evidence.**

3239 Comment: In developing income and expense statements and cash flow
3240 projections, an appraiser must weigh historical information and trends,
3241 current supply and demand factors affecting such trends, and anticipated
3242 events such as competition from developments under construction.

3243 **(d) When developing an opinion of the value of a leased fee estate or a leasehold estate,**
3244 **an appraiser must analyze the effect on value, if any, of the terms and conditions of**
3245 **the lease(s).**

3246 (e) **When analyzing the assemblage of the various estates or component parts of a**
3247 **property, an appraiser must analyze the effect on value, if any, of the assemblage.**
3248 **An appraiser must refrain from valuing the whole solely by adding together the**
3249 **individual values of the various estates or component parts.**

3250 Comment: Although the value of the whole may be equal to the sum of the
3251 separate estates or parts, it also may be greater than or less than the sum of such
3252 estates or parts. Therefore, the value of the whole must be tested by reference to
3253 appropriate data and supported by an appropriate analysis of such data.

3254 A similar procedure must be followed when the value of the whole has been
3255 established and the appraiser seeks to value a part. The value of any such part
3256 must be tested by reference to appropriate data and supported by an appropriate
3257 analysis of such data.

3258 (f) **When analyzing anticipated public or private improvements, located on or off the**
3259 **site, an appraiser must analyze the effect on value, if any, of such anticipated**
3260 **improvements to the extent they are reflected in market actions.**

3261 (g) **When personal property, trade fixtures, or intangible items are included in the**
3262 **appraisal, the appraiser must analyze the effect on value of such non-real property**
3263 **items.**

3264 Comment: When the scope of work includes an appraisal of personal property,
3265 trade fixtures or intangible items, competency in personal property appraisal (see
3266 STANDARD 7) or business appraisal (see STANDARD 9) is required.

3267 **Standards Rule 1-5**

3268 **When the value opinion to be developed is market value, an appraiser must, if such**
3269 **information is available to the appraiser in the normal course of business:**

3270 (a) **analyze all agreements of sale, options, and listings of the subject property current**
3271 **as of the effective date of the appraisal; and**

3272 (b) **analyze all sales of the subject property that occurred within the three (3) years**
3273 **prior to the effective date of the appraisal.**

3274 Comment: See the Comments to Standards Rules 2-2(a)(ix), 2-2(b)(ix), and 2-
3275 2(c)(ix) for corresponding reporting requirements relating to the availability and
3276 relevance of information.

3277 **Standards Rule 1-6**

3278 **In developing a real property appraisal, an appraiser must:**

3279 (a) **reconcile the quality and quantity of data available and analyzed within the**
3280 **approaches used; and**

3281 (b) **reconcile the applicability or suitability of the approaches used to arrive at the value**
3282 **conclusion(s).**

3283 Comment: See the Comments to Standards Rules 2-2(a)(ix), 2-2(b)(ix), and 2-
3284 2(c)(ix) for corresponding reporting requirements.

3285 **STANDARD 2: REAL PROPERTY APPRAISAL, REPORTING**

3286 **In reporting the results of a real property appraisal, an appraiser must communicate each**
3287 **analysis, opinion, and conclusion in a manner that is not misleading.**

3288 Comment: STANDARD 2 addresses the content and level of information
3289 required in a report that communicates the results of a real property appraisal.

3290 STANDARD 2 does not dictate the form, format, or style of real property
3291 appraisal reports. The form, format, and style of a report are functions of the
3292 needs of users and appraisers. The substantive content of a report determines its
3293 compliance.

3294 **Standards Rule 2-1**

3295 **Each written or oral real property appraisal report must:**

3296 (a) **clearly and accurately set forth the appraisal in a manner that will not be**
3297 **misleading;**

3298 (b) **contain sufficient information to enable the intended users of the appraisal to**
3299 **understand the report properly; and**

3300 (c) **clearly and accurately disclose all assumptions, extraordinary assumptions,**
3301 **hypothetical conditions, and limiting conditions used in the assignment.**

3302 **Standards Rule 2-2**

3303 **Each written real property appraisal report must be prepared under one of the following**
3304 **three options and prominently state which option is used: Self-Contained Appraisal Report,**
3305 **Summary Appraisal Report, or Restricted Use Appraisal Report.**

3306 Comment: When the intended users include parties other than the client, either a
3307 Self-Contained Appraisal Report or a Summary Appraisal Report must be
3308 provided. When the intended users do not include parties other than the client, a
3309 Restricted Use Appraisal Report may be provided.

3310 The essential difference among these three options is in the content and level of
3311 information provided. The intended users and intended use of the assignment
3312 results dictate which reporting option is appropriate and the level of information
3313 necessary in the report.

3314 An appraiser must use care when characterizing the type of report and level of
3315 information communicated upon completion of an assignment. An appraiser may
3316 use any other label in addition to, but not in place of, the label set forth in this
3317 Standard for the type of report provided.

3318 The report content and level of information requirements set forth in this
3319 Standard are minimums for each type of report. An appraiser must supplement a
3320 report form, when necessary, to ensure that any intended user of the appraisal is
3321 not misled and that the report complies with the applicable content requirements
3322 set forth in this Standards Rule.

- 3323 A party receiving a copy of a Self-Contained Appraisal Report, Summary
3324 Appraisal Report, or Restricted Use Appraisal Report in order to satisfy
3325 disclosure requirements does not become an intended user of the appraisal unless
3326 the appraiser identifies such party as an intended user as part of the assignment.
- 3327 (a) **The content of a Self-Contained Appraisal Report must be consistent with the**
3328 **intended use of the appraisal and, at a minimum:**
- 3329 (i) **state the identity of the client and any intended users, by name or type;**
- 3330 Comment: An appraiser must use care when identifying the client to
3331 ensure a clear understanding and to avoid violations of the
3332 Confidentiality section of the ETHICS RULE. In those rare instances
3333 when the client wishes to remain anonymous, an appraiser must still
3334 document the identity of the client in the workfile but may omit the
3335 client's identity in the report.
- 3336 Intended users of the report might include parties such as lenders,
3337 employees of government agencies, partners of a client, and a client's
3338 attorney and accountant.
- 3339 (ii) **state the intended use of the appraisal;**
- 3340 (iii) **describe information sufficient to identify the real estate involved in the**
3341 **appraisal, including the physical and economic property characteristics**
3342 **relevant to the assignment;**
- 3343 Comment: The real estate involved in the appraisal can be specified, for
3344 example, by a legal description, address, map reference, copy of a survey
3345 or map, property sketch and/or photographs or the like. The information
3346 can include a property sketch and photographs in addition to written
3347 comments about the legal, physical, and economic attributes of the real
3348 estate relevant to the type and definition of value and intended use of the
3349 appraisal.
- 3350 (iv) **state the real property interest appraised;**
- 3351 Comment: The statement of the real property rights being appraised must
3352 be substantiated, as needed, by copies or summaries of title descriptions
3353 or other documents that set forth any known encumbrances.
- 3354 (v) **state the type and definition of value and cite the source of the definition;**
- 3355 Comment: Stating the definition of value also requires any comments
3356 needed to clearly indicate to intended users how the definition is being
3357 applied.
- 3358 When reporting an opinion of market value, state whether the opinion of
3359 value is:
- 3360 • in terms of cash or of financing terms equivalent to cash, or
3361 • based on non-market financing or financing with unusual conditions
3362 or incentives.

3363 When an opinion of market value is not in terms of cash or based on
3364 financing terms equivalent to cash, summarize the terms of such
3365 financing and explain their contributions to or negative influence on
3366 value.

3367 **(vi) state the effective date of the appraisal and the date of the report;**

3368 Comment: The effective date of the appraisal establishes the context for
3369 the value opinion, while the date of the report indicates whether the
3370 perspective of the appraiser on the market or property use conditions as
3371 of the effective date of the appraisal was prospective, current, or
3372 retrospective.

3373 Reiteration of the date of the report and the effective date of the appraisal
3374 at various stages of the report in tandem is important for the clear
3375 understanding of the reader whenever market or property use conditions
3376 on the date of the report are different from such conditions on the
3377 effective date of the appraisal.

3378 **(vii) describe the scope of work used to develop the appraisal;**

3379 Comment: Because intended users' reliance on an appraisal may be
3380 affected by the scope of work, the report must enable them to be properly
3381 informed and not misled. Sufficient information includes disclosure of
3382 research and analyses performed and might also include disclosure of
3383 research and analyses not performed.

3384 When any portion of the work involves significant real property appraisal
3385 assistance, the appraiser must describe the extent of that assistance. The
3386 signing appraiser must also state the name(s) of those providing the
3387 significant real property appraisal assistance in the certification, in
3388 accordance with SR 2-3.

3389 **(viii) describe the information analyzed, the appraisal methods and techniques**
3390 **employed, and the reasoning that supports the analyses, opinions, and**
3391 **conclusions; exclusion of the sales comparison approach, cost approach, or**
3392 **income approach must be explained;**

3393 Comment: A Self-Contained Appraisal Report must include sufficient
3394 information to indicate that the appraiser complied with the requirements
3395 of STANDARD 1. The amount of detail required will vary with the
3396 significance of the information to the appraisal.

3397 The appraiser must provide sufficient information to enable the client
3398 and intended users to understand the rationale for the opinions and
3399 conclusions, including reconciliation of the data and approaches, in
3400 accordance with Standards Rule 1-6.

3401 When reporting an opinion of market value, a summary of the results of
3402 analyzing the subject sales, options, and listings in accordance with
3403 Standards Rule 1-5 is required. If such information is unobtainable, a
3404 statement on the efforts undertaken by the appraiser to obtain the
3405 information is required. If such information is irrelevant, a statement
3406 acknowledging the existence of the information and citing its lack of
3407 relevance is required.

3408 (ix) **state the use of the real estate existing as of the date of value and the use of**
3409 **the real estate reflected in the appraisal; and, when an opinion of highest**
3410 **and best use was developed by the appraiser, describe the support and**
3411 **rationale for that opinion;**

3412 (x) **clearly and conspicuously:**

3413 • **state all extraordinary assumptions and hypothetical conditions; and**
3414 • **state that their use might have affected the assignment results; and**

3415 (xi) **include a signed certification in accordance with Standards Rule 2-3.**

3416 (b) **The content of a Summary Appraisal Report must be consistent with the intended**
3417 **use of the appraisal and, at a minimum:**

3418 Comment: The essential difference between the Self-Contained
3419 Appraisal Report and the Summary Appraisal Report is the level of detail
3420 of presentation.

3421 (i) **state the identity of the client and any intended users, by name or type;**

3422 Comment: An appraiser must use care when identifying the client to
3423 ensure a clear understanding and to avoid violations of the
3424 Confidentiality section of the ETHICS RULE. In those rare instances
3425 when the client wishes to remain anonymous, an appraiser must still
3426 document the identity of the client in the workfile but may omit the
3427 client's identity in the report.

3428 Intended users of the report might include parties such as lenders,
3429 employees of government agencies, partners of a client, and a client's
3430 attorney and accountant.

3431 (ii) **state the intended use of the appraisal;**

3432 (iii) **summarize information sufficient to identify the real estate involved in the**
3433 **appraisal, including the physical and economic property characteristics**
3434 **relevant to the assignment;**

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Comment: The real estate involved in the appraisal can be specified, for example, by a legal description, address, map reference, copy of a survey or map, property sketch, and/or photographs or the like. The summarized information can include a property sketch and photographs in addition to written comments about the legal, physical, and economic attributes of the real estate relevant to the type and definition of value and intended use of the appraisal.

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(iv) state the real property interest appraised;

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Comment: The statement of the real property rights being appraised must be substantiated, as needed, by copies or summaries of title descriptions or other documents that set forth any known encumbrances.

3446

(v) state the type and definition of value and cite the source of the definition;

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Comment: Stating the definition of value also requires any comments needed to clearly indicate to the intended users how the definition is being applied.

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When reporting an opinion of market value, state whether the opinion of value is:

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- in terms of cash or of financing terms equivalent to cash, or
- based on non-market financing or financing with unusual conditions or incentives.

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When an opinion of market value is not in terms of cash or based on financing terms equivalent to cash, summarize the terms of such financing and explain their contributions to or negative influence on value.

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(vi) state the effective date of the appraisal and the date of the report;

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Comment: The effective date of the appraisal establishes the context for the value opinion, while the date of the report indicates whether the perspective of the appraiser on the market or property use conditions as of the effective date of the appraisal was prospective, current, or retrospective.

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Reiteration of the date of the report and the effective date of the appraisal at various stages of the report in tandem is important for the clear understanding of the reader whenever market or property use conditions on the date of the report are different from such conditions on the effective date of the appraisal.

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(vii) summarize the scope of work used to develop the appraisal;

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Comment: Because intended users' reliance on an appraisal may be affected by the scope of work, the report must enable them to be properly informed and not misled. Sufficient information includes disclosure of research and analyses performed and might also include disclosure of research and analyses not performed.

3476 When any portion of the work involves significant real property appraisal
3477 assistance, the appraiser must summarize the extent of that assistance.
3478 The signing appraiser must also state the name(s) of those providing the
3479 significant real property appraisal assistance in the certification, in
3480 accordance with SR 2-3.

3481 (viii) **summarize the information analyzed, the appraisal methods and techniques**
3482 **employed, and the reasoning that supports the analyses, opinions, and**
3483 **conclusions; exclusion of the sales comparison approach, cost approach, or**
3484 **income approach must be explained;**

3485 Comment: A Summary Appraisal Report must include sufficient
3486 information to indicate that the appraiser complied with the requirements
3487 of STANDARD 1. The amount of detail required will vary with the
3488 significance of the information to the appraisal.

3489 The appraiser must provide sufficient information to enable the client
3490 and intended users to understand the rationale for the opinions and
3491 conclusions, including reconciliation of the data and approaches, in
3492 accordance with Standards Rule 1-6.

3493 When reporting an opinion of market value, a summary of the results of
3494 analyzing the subject sales, options, and listings in accordance with
3495 Standards Rule 1-5 is required. If such information is unobtainable, a
3496 statement on the efforts undertaken by the appraiser to obtain the
3497 information is required. If such information is irrelevant, a statement
3498 acknowledging the existence of the information and citing its lack of
3499 relevance is required.

3500 (ix) **state the use of the real estate existing as of the date of value and the use of**
3501 **the real estate reflected in the appraisal; and, when an opinion of highest**
3502 **and best use was developed by the appraiser, summarize the support and**
3503 **rationale for that opinion;**

3504 (x) **clearly and conspicuously:**

3505 • **state all extraordinary assumptions and hypothetical conditions; and**

3506 • **state that their use might have affected the assignment results; and**

3507 (xi) **include a signed certification in accordance with Standards Rule 2-3.**

3508 (c) **The content of a Restricted Use Appraisal Report must be consistent with the**
3509 **intended use of the appraisal and, at a minimum:**

3510 (i) **state the identity of the client, by name or type; and state a prominent use**
3511 **restriction that limits use of the report to the client and warns that the**
3512 **appraiser's opinions and conclusions set forth in the report may not be**
3513 **understood properly without additional information in the appraiser's**
3514 **workfile;**

3515 Comment: An appraiser must use care when identifying the client to
 3516 ensure a clear understanding and to avoid violations of the
 3517 Confidentiality section of the ETHICS RULE. In those rare instances
 3518 when the client wishes to remain anonymous, an appraiser must still
 3519 document the identity of the client in the workfile but may omit the
 3520 client's identity in the report.

3521 The Restricted Use Appraisal Report is for client use only. Before
 3522 entering into an agreement, the appraiser should establish with the client
 3523 the situations where this type of report is to be used and should ensure
 3524 that the client understands the restricted utility of the Restricted Use
 3525 Appraisal Report.

3526 **(ii) state the intended use of the appraisal;**

3527 Comment: The intended use of the appraisal must be consistent with the
 3528 limitation on use of the Restricted Use Appraisal Report option in this
 3529 Standards Rule (i.e., client use only).

3530 **(iii) state information sufficient to identify the real estate involved in the**
 3531 **appraisal;**

3532 Comment: The real estate involved in the appraisal can be specified, for
 3533 example, by a legal description, address, map reference, copy of a survey
 3534 or map, property sketch, and/or photographs or the like.

3535 **(iv) state the real property interest appraised;**

3536 **(v) state the type of value, and cite the source of its definition;**

3537 **(vi) state the effective date of the appraisal and the date of the report;**

3538 Comment: The effective date of the appraisal establishes the context for
 3539 the value opinion, while the date of the report indicates whether the
 3540 perspective of the appraiser on the market or property use conditions as
 3541 of the effective date of the appraisal was prospective, current, or
 3542 retrospective.

3543 **(vii) state the scope of work used to develop the appraisal;**

3544 Comment: Because the client's reliance on an appraisal may be affected
 3545 by the scope of work, the report must enable them to be properly
 3546 informed and not misled. Sufficient information includes disclosure of
 3547 research and analyses performed and might also include disclosure of
 3548 research and analyses not performed.

3549 When any portion of the work involves significant real property appraisal
 3550 assistance, the appraiser must state the extent of that assistance. The
 3551 signing appraiser must also state the name(s) of those providing the
 3552 significant real property appraisal assistance in the certification, in
 3553 accordance with SR 2-3.

3554 (viii) state the appraisal methods and techniques employed, state the value
3555 opinion(s) and conclusion(s) reached, and reference the workfile; exclusion
3556 of the sales comparison approach, cost approach, or income approach must
3557 be explained;

3558 Comment: An appraiser must maintain a specific, coherent workfile in
3559 support of a Restricted Use Appraisal Report. The contents of the
3560 workfile must include sufficient information to indicate that the appraiser
3561 complied with the requirements of STANDARD 1 and for the appraiser
3562 to produce a Summary Appraisal Report. The file must be available for
3563 inspection by the client (or the client's representatives, such as those
3564 engaged to complete an appraisal review), state enforcement agencies,
3565 such third parties as may be authorized by due process of law, and a duly
3566 authorized professional peer review committee except when such
3567 disclosure to a committee would violate applicable law or regulation.

3568 When reporting an opinion of market value, information analyzed in
3569 compliance with Standards Rule 1-5 is significant information that must
3570 be disclosed in a Restricted Use Appraisal Report. If such information is
3571 unobtainable, a statement on the efforts undertaken by the appraiser to
3572 obtain the information is required. If such information is irrelevant, a
3573 statement acknowledging the existence of the information and citing its
3574 lack of relevance is required.

3575 (ix) state the use of the real estate existing as of the date of value and the use of
3576 the real estate reflected in the appraisal; and, when an opinion of highest
3577 and best use was developed by the appraiser, state that opinion;

3578 (x) clearly and conspicuously:

- 3579 • state all extraordinary assumptions and hypothetical conditions; and
- 3580 • state that their use might have affected the assignment results; and

3581 (xi) include a signed certification in accordance with Standards Rule 2-3.

3582 **Standards Rule 2-3**

3583 Each written real property appraisal report must contain a signed certification that is
3584 similar in content to the following form:

3585 I certify that, to the best of my knowledge and belief:

- 3586 — the statements of fact contained in this report are true and correct.
- 3587 — the reported analyses, opinions, and conclusions are limited only by the
- 3588 reported assumptions and limiting conditions and are my personal,
- 3589 impartial, and unbiased professional analyses, opinions, and conclusions.
- 3590 — I have no (or the specified) present or prospective interest in the property
- 3591 that is the subject of this report and no (or the specified) personal interest
- 3592 with respect to the parties involved.
- 3593 — I have no bias with respect to the property that is the subject of this report
- 3594 or to the parties involved with this assignment.
- 3595 — my engagement in this assignment was not contingent upon developing or
- 3596 reporting predetermined results.

3597 — my compensation for completing this assignment is not contingent upon
3598 the development or reporting of a predetermined value or direction in
3599 value that favors the cause of the client, the amount of the value opinion,
3600 the attainment of a stipulated result, or the occurrence of a subsequent
3601 event directly related to the intended use of this appraisal.
3602 — my analyses, opinions, and conclusions were developed, and this report has
3603 been prepared, in conformity with the *Uniform Standards of Professional*
3604 *Appraisal Practice*.
3605 — I have (or have not) made a personal inspection of the property that is the
3606 subject of this report. (If more than one person signs this certification, the
3607 certification must clearly specify which individuals did and which
3608 individuals did not make a personal inspection of the appraised property.)
3609 — no one provided significant real property appraisal assistance to the
3610 person signing this certification. (If there are exceptions, the name of each
3611 individual providing significant real property appraisal assistance must be
3612 stated.)

3613 Comment: A signed certification is an integral part of the appraisal report. An
3614 appraiser who signs any part of the appraisal report, including a letter of transmittal,
3615 must also sign this certification.

3616 In an assignment that includes only assignment results developed by the real property
3617 appraiser(s), any appraiser(s) who signs a certification accepts full responsibility for
3618 all elements of the certification, for the assignment results, and for the contents of the
3619 appraisal report. In an assignment that includes personal property, business or
3620 intangible asset assignment results not developed by the real property appraiser(s),
3621 any real property appraiser(s) who signs a certification accepts full responsibility for
3622 the real property elements of the certification, for the real property assignment
3623 results, and for the real property contents of the appraisal report.

3624 When a signing appraiser(s) has relied on work done by others who do not sign the
3625 certification, the signing appraiser is responsible for the decision to rely on their
3626 work. The signing appraiser(s) is required to have a reasonable basis for believing
3627 that those individuals performing the work are competent and that their work is
3628 credible.

3629 The names of individuals providing significant real property appraisal assistance who
3630 do not sign a certification must be stated in the certification. It is not required that the
3631 description of their assistance be contained in the certification, but disclosure of their
3632 assistance is required in accordance with SR 2-2(a), (b), or (c)(vii), as applicable.

3633 **Standards Rule 2-4**

3634 **To the extent that it is both possible and appropriate, an oral real property appraisal report**
3635 **must address the substantive matters set forth in Standards Rule 2-2(b).**

3636 Comment: See the Record Keeping section of the ETHICS RULE for corresponding
3637 requirements.

3638 **STANDARD 3: APPRAISAL REVIEW, DEVELOPMENT AND REPORTING**

3639 **In performing an appraisal review assignment, an appraiser acting as a reviewer must**
3640 **develop and report a credible opinion as to the quality of another appraiser's work and**
3641 **must clearly disclose the scope of work performed.**

3642 Comment: Appraisal review is the act or process of developing and
3643 communicating an opinion about the quality of all or part of the work of another
3644 appraiser that was performed as part of an appraisal, appraisal review, or
3645 appraisal consulting assignment. The reviewer's opinion about quality must
3646 encompass the completeness, adequacy, relevance, appropriateness, and
3647 reasonableness of the work under review, developed in the context of the
3648 requirements applicable to that work.

3649 The COMPETENCY RULE applies to the reviewer, who must correctly employ
3650 those recognized methods and techniques necessary to develop credible appraisal
3651 review opinions and also avoid material errors of commission or omission. A
3652 misleading or fraudulent appraisal review report violates the ETHICS RULE.

3653 Appraisal review requires the reviewer to prepare a separate report setting forth
3654 the scope of work performed and the results of the appraisal review.

3655 Appraisal review is distinctly different from the cosigning activity addressed in
3656 Standards Rules 2-3, 5-3, 6-8, 8-3, and 10-3. To avoid confusion between these
3657 activities, a reviewer performing an appraisal review must not sign the work
3658 under review unless he or she intends to accept the responsibility of a cosigner of
3659 that work.

3660 **Standards Rule 3-1**

3661 **In developing an appraisal review, the reviewer must:**

3662 (a) **identify the reviewer's client and intended users, the intended use of the reviewer's**
3663 **opinions and conclusions, and the purpose of the assignment;**

3664 Comment: The intended use is in the context of the client's use of the reviewer's
3665 opinions and conclusions; examples include, without limitation, quality control,
3666 audit, qualification, or confirmation. The purpose of the assignment relates to the
3667 reviewer's objective; examples include, without limitation, to evaluate
3668 compliance with relevant USPAP requirements, with a client's requirements, or
3669 with applicable regulations.

3670 A reviewer must ascertain whether the assignment includes the development of
3671 his or her own opinion of value about the subject property of the work under
3672 review.

3673 If the assignment includes the reviewer developing his or her own opinion of
3674 value about the subject property of the work under review, that opinion is an
3675 appraisal whether it:

- 3676 • concurs with the opinion of value in the work under review, as of the date of
3677 value in that work or a different date of value; or
- 3678 • differs from the opinion of value in the work under review, as of the date of
3679 value in that work or a different date of value.

- 3680 (b) identify the:
- 3681 (i) subject of the appraisal review assignment,
- 3682 (ii) effective date of the review,
- 3683 (iii) property and ownership interest appraised (if any) in the work under
- 3684 review,
- 3685 (iv) date of the work under review and the effective date of the opinion or
- 3686 conclusion in the work under review, and
- 3687 (v) appraiser(s) who completed the work under review, unless the identity was
- 3688 withheld.

3689 Comment: The subject of an appraisal review assignment may be all or

3690 part of a report, a workfile, or a combination of these, and may be related

3691 to an appraisal, appraisal review, or appraisal consulting assignment.

- 3692 (c) determine the scope of work necessary to produce credible assignment results in
- 3693 accordance with the SCOPE OF WORK RULE;

3694 Comment: In making the scope of work decision, the reviewer must identify any

3695 extraordinary assumptions necessary in the assignment. An extraordinary

3696 assumption may be used in an appraisal review assignment only if:

- 3697 • it is required to properly develop credible opinions and conclusions;
- 3698 • the reviewer has a reasonable basis for the extraordinary assumption;
- 3699 • use of the extraordinary assumption results in a credible analysis; and
- 3700 • the reviewer complies with the disclosure requirements set forth in SR 3-
- 3701 2(d) for extraordinary assumptions.

3702 The appraisal review must be conducted in the context of market conditions as of the

3703 effective date of the opinion in the work being reviewed. Information available to the

3704 reviewer that could not have been available to the appraiser as of or subsequent to the

3705 date of the work being reviewed must not be used by a reviewer in the development of

3706 an opinion as to the quality of the work under review.

3707 When the reviewer's scope of work includes developing his or her own opinion

3708 of value, the following apply:

- 3709 • The reviewer's scope of work in developing his or her own opinion of value
- 3710 may be different from that of the work under review.
- 3711 • The effective date of the reviewer's opinion of value may be the same or
- 3712 different from the date of the work under review.
- 3713 • The reviewer is not required to replicate the steps completed by the original
- 3714 appraiser. Those items in the work under review that the reviewer concludes
- 3715 are credible and in compliance with the applicable development Standard
- 3716 (STANDARD 1, 3, 4, 6, 7, or 9) can be extended to the reviewer's value
- 3717 opinion development process on the basis of an extraordinary assumption by
- 3718 the reviewer. Those items not deemed to be credible or in compliance must
- 3719 be replaced with information or analysis by the reviewer, developed in
- 3720 conformance with STANDARD 1, 3, 4, 6, 7, or 9, as applicable, to produce a
- 3721 credible value opinion.

3722 • The reviewer may use additional information available to him or her that was
3723 not available to the original appraiser in the development of his or her value
3724 opinion; however, the reviewer must not use such information as the basis to
3725 discredit the original appraiser's opinion of value.

3726 (d) **develop an opinion as to the completeness of the material under review, given the**
3727 reviewer's scope of work;

3728 Comment: The reviewer is required to develop an opinion as to the completeness
3729 of the work under review within the context of the requirements applicable to
3730 that work.

3731 (e) **develop an opinion as to the apparent adequacy and relevance of the data and the**
3732 propriety of any adjustments to the data, given the reviewer's scope of work;

3733 Comment: When reviewing a mass appraisal report and considering the
3734 propriety of any adjustment to value for isolated differences in data, the reviewer
3735 must develop an opinion as to the use of the coefficients from decomposition of a
3736 statistical model.

3737 (f) **develop an opinion as to the appropriateness of the appraisal methods and**
3738 techniques used, given the reviewer's scope of work, and develop the reasons for any
3739 disagreement; and

3740 (g) **develop an opinion as to whether the analyses, opinions, and conclusions are**
3741 appropriate and reasonable, given the reviewer's scope of work, and develop the
3742 reasons for any disagreement.

3743 Comment: When reviewing a mass appraisal report, the reviewer must develop an
3744 opinion as to the standards of accuracy and adequacy of the mass appraisal testing
3745 performed and develop the reasons for any disagreement.

3746 **Standards Rule 3-2**

3747 **In reporting the results of an appraisal review, the reviewer must:**

3748 (a) **state the identity of the client, by name or type, and intended users; the intended use**
3749 of the assignment results; and the purpose of the assignment;

3750 (b) **state the information that must be identified in accordance with Standards Rule 3-**
3751 1(b);

3752 Comment: If the identity of the appraiser(s) in the work under review was
3753 withheld, state that fact in the review report.

3754 (c) **state the scope of work used to develop the appraisal review;**

3755 Comment: Because intended users' reliance on an appraisal review may be
3756 affected by the scope of work, the report must enable them to be properly
3757 informed and not misled. Sufficient information includes disclosure of research
3758 and analyses performed and might also include disclosure of research and
3759 analyses not performed.

- 3760 When any portion of the work involves significant appraisal, appraisal review, or
3761 appraisal consulting assistance, the reviewer must state the extent of that
3762 assistance. The signing reviewer must also state the name(s) of those providing
3763 the significant assistance in the certification, in accordance with SR 3-3.
- 3764 (d) **state the opinions, reasons, and conclusions required in Standards Rule 3-1(d–g),**
3765 **given the reviewer’s scope of work;**
- 3766 Comment: When the reviewer’s scope of work includes expressing his or her
3767 own opinion of value, the reviewer must:
- 3768 1. state which information, analyses, opinions, and conclusions in the material
3769 under review that the reviewer accepted as credible and used in developing
3770 the reviewer’s opinion of value;
- 3771 2. summarize any additional information relied on and the reasoning and basis for
3772 the reviewer’s opinion of value;
- 3773 3. state all assumptions and limiting conditions; and
- 3774 4. clearly and conspicuously:
- 3775 • state all extraordinary assumptions and hypothetical conditions
3776 connected with the reviewer’s opinion of value; and
- 3777 • state that their use might have affected the assignment results.
- 3778 The reviewer may include his or her own value opinion within the appraisal
3779 review report itself without preparing a separate appraisal report. However, data
3780 and analyses provided by the reviewer to support a different value conclusion
3781 must match, at a minimum, the reporting requirements for a Summary Appraisal
3782 Report for a real property appraisal (SR 2-2(b)) and a personal property appraisal
3783 (SR 8-2(b)), an appraisal consulting report for real property appraisal consulting
3784 (SR 5-2), a mass appraisal report for mass appraisal (SR 6-7), and an Appraisal
3785 Report for business appraisal (SR 10-2(a)).
- 3786 (e) **include all known pertinent information; and**
- 3787 Comment: The reviewer must provide sufficient information to enable the client and
3788 intended users to understand the rationale for the reviewer’s opinions and conclusions.
- 3789 (f) **include a signed certification in accordance with Standards Rule 3-3.**
- 3790 **Standards Rule 3-3**
- 3791 **Each written appraisal review report must contain a signed certification that is similar in**
3792 **content to the following form:**
- 3793 **I certify that, to the best of my knowledge and belief:**
- 3794 — **the facts and data reported by the reviewer and used in the review process**
3795 **are true and correct.**

3796 — the analyses, opinions, and conclusions in this review report are limited
 3797 only by the assumptions and limiting conditions stated in this review
 3798 report and are my personal, impartial, and unbiased professional analyses,
 3799 opinions, and conclusions.
 3800 — I have no (or the specified) present or prospective interest in the property
 3801 that is the subject of the work under review and no (or the specified)
 3802 personal interest with respect to the parties involved.
 3803 — I have no bias with respect to the property that is the subject of the work
 3804 under review or to the parties involved with this assignment.
 3805 — my engagement in this assignment was not contingent upon developing or
 3806 reporting predetermined results.
 3807 — my compensation is not contingent on an action or event resulting from the
 3808 analyses, opinions, or conclusions in this review or from its use.
 3809 — my analyses, opinions, and conclusions were developed and this review
 3810 report was prepared in conformity with the *Uniform Standards of*
 3811 *Professional Appraisal Practice*.
 3812 — I have (or have not) made a personal inspection of the subject property of
 3813 the work under review. (If more than one person signs this certification,
 3814 the certification must clearly specify which individuals did and which
 3815 individuals did not make a personal inspection of the subject property of
 3816 the work under review.)
 3817 — no one provided significant appraisal, appraisal review, or appraisal
 3818 consulting assistance to the person signing this certification. (If there are
 3819 exceptions, the name of each individual(s) providing appraisal, appraisal
 3820 review, or appraisal consulting assistance must be stated.)

3821 Comment: A signed certification is an integral part of the appraisal review report.
 3822 A reviewer who signs any part of the appraisal review report, including a letter of
 3823 transmittal, must also sign this certification.

3824 Any reviewer(s) who signs a certification accepts full responsibility for all
 3825 elements of the certification, for the assignment results, and for the contents of
 3826 the appraisal review report.

3827 When a signing reviewer(s) has relied on work done by others who do not sign
 3828 the certification, the signing reviewer is responsible for the decision to rely on
 3829 their work. The signing reviewer(s) is required to have a reasonable basis for
 3830 believing that those individuals performing the work are competent and that their
 3831 work is credible.

3832 The names of individuals providing significant appraisal, appraisal review, or
 3833 appraisal consulting assistance who do not sign a certification must be stated in
 3834 the certification. It is not required that the description of their assistance be
 3835 contained in the certification, but disclosure of their assistance is required in
 3836 accordance with SR 3-2(c).

3837 For reviews of business or intangible asset appraisal reports, the inspection
 3838 portion of the above certification is not applicable.

3839 **Standards Rule 3-4**

3840 **To the extent that it is both possible and appropriate, an oral appraisal review report**
 3841 **must address the substantive matters set forth in Standards Rule 3-2.**

3842 Comment: See the Record Keeping section of the ETHICS RULE for
3843 corresponding requirements.

3844

3845 **STANDARD 4: REAL PROPERTY APPRAISAL CONSULTING, DEVELOPMENT**

3846 **In developing a real property appraisal consulting assignment, an appraiser must identify**
3847 **the problem to be solved, determine the scope of work necessary to solve the problem, and**
3848 **correctly complete the research and analyses necessary to produce credible results.**

3849 Comment: Real property appraisal consulting assignments encompass a wide
3850 variety of problems to be solved. However, the purpose of an assignment under
3851 this Standard is always to develop, without advocacy, an analysis,
3852 recommendation, or opinion where at least one opinion of value is a component
3853 of the analysis leading to the assignment results.

3854 In some assignments, the opinion of value may originate from a source other than
3855 the consulting appraiser. In other assignments, the consulting appraiser may have
3856 to develop the opinion of value as a step in the analyses leading to the assignment
3857 results.

3858 An opinion of value or an opinion as to the quality of another appraiser's work
3859 cannot be the purpose of an appraisal consulting assignment. Developing an
3860 assignment for those purposes is an appraisal or an appraisal review assignment,
3861 respectively. Misrepresenting the purpose of an assignment performed under this
3862 Standard is a violation of the ETHICS RULE.

3863 The ETHICS and COMPETENCY RULES apply to the appraiser performing an
3864 appraisal consulting assignment. Appraisers practicing under this Standard must
3865 perform the assignment with impartiality, objectivity, independence, and without
3866 accommodation of personal interests.

3867 Except when required by law, regulation, agreement, or choice, this appraisal
3868 consulting STANDARD does not apply to services provided by an appraiser
3869 acting under the standards of other professions or business activities. For
3870 example, when an appraiser who is also an investment consultant provides a
3871 service that does not require an opinion of value, that appraiser, acting as an
3872 investment consultant, is not performing an assignment addressed by this
3873 Standard.

3874 **Standards Rule 4-1**

3875 **In performing a real property appraisal consulting assignment, an appraiser must:**

- 3876 (a) **be aware of, understand, and correctly employ those recognized methods and**
3877 **techniques that are necessary to produce credible results;**
- 3878 (b) **not commit a substantial error of omission or commission that significantly affects**
3879 **the results of an appraisal consulting assignment; and**
- 3880 (c) **not render appraisal consulting services in a careless or negligent manner, such as**
3881 **by making a series of errors that, although individually might not significantly**
3882 **affect the results, in the aggregate affect the credibility of those results.**

Standards Rule 4-2

In developing real property appraisal consulting assignment results, an appraiser must:

(a) identify the client and other intended users;

(b) identify the intended use of the appraisal consulting assignment results;

(c) identify:

(i) the analysis, recommendation or opinion to be developed; and

(ii) the type and definition of value developed in the appraisal(s) that is a necessary component of an analysis supporting the appraisal consulting assignment results;

Comment: If the applicable type and definition of value is market value, ascertain whether that value is to be the most probable price:

- in terms of cash; or
- in terms of financial arrangements equivalent to cash; or
- in other precisely defined terms; and
- if the opinion of value is to be based on non-market financing or financing with unusual conditions or incentives, the terms of such financing must be clearly identified and the appraiser's opinion of their contributions to or negative influence on value must be developed by analysis of relevant market data.

(d) identify the effective date of the appraisal consulting assignment results;

(e) identify the physical, legal, and economic characteristics of the property, properties, property type(s), or market area that are relevant to:

(i) the analysis, recommendation or opinion to be developed in the appraisal consulting assignment; and

(ii) an opinion of value that is a necessary component of an analysis supporting the appraisal consulting assignment results;

(f) identify any extraordinary assumptions necessary in the appraisal consulting assignment and in developing the opinion(s) of value necessary to support the appraisal consulting assignment results;

Comment: An extraordinary assumption may be used in an assignment only if:

- it is required to properly develop credible opinions and conclusions;
- the appraiser has a reasonable basis for the extraordinary assumption;
- use of the extraordinary assumption results in a credible analysis; and
- the appraiser complies with the disclosure requirements set forth in USPAP for extraordinary assumptions.

3920 (g) **identify any hypothetical conditions necessary in the appraisal consulting**
3921 **assignment and in developing the opinion(s) of value necessary to support the**
3922 **appraisal consulting assignment results; and**

3923 Comment: A hypothetical condition may be used in an assignment only if:

- 3924 • use of the hypothetical condition is clearly required for legal purposes, for
3925 purposes of reasonable analysis, or for purposes of comparison;
3926 • use of the hypothetical condition results in a credible analysis; and
3927 • the appraiser complies with the disclosure requirements set forth in USPAP
3928 for hypothetical conditions.
3929

3930 (h) **determine the scope of work necessary to produce credible assignment results in**
3931 **accordance with the SCOPE OF WORK RULE, including:**

3932 (i) **the appraisal consulting methods and techniques to be employed, and**

3933 (ii) **the research and analysis required to:**

- 3934 • **ascertain the relevance and credibility of an opinion of value obtained**
3935 **from a source other than the appraiser performing the appraisal**
3936 **consulting assignment, or**
3937 • **develop an opinion of value that is a necessary component of an analysis**
3938 **supporting the appraisal consulting assignment results;**

3939 Comment: An appraiser must ensure that any opinion of value used in an
3940 appraisal consulting assignment was developed in compliance with STANDARD
3941 1.

3942 If an opinion of value used in a real property appraisal consulting assignment is
3943 from a source other than the consulting appraiser, the assignment may include a
3944 review, prepared in compliance with STANDARD 3, of that appraisal.
3945 Alternatively, the appraiser may accept an appraisal from another source using an
3946 extraordinary assumption in the appraisal consulting assignment, provided that
3947 all conditions necessary to use such an extraordinary assumption are fulfilled.

3948 If the opinion of value is from an appraisal developed by the appraiser
3949 performing the real property appraisal consulting assignment, the appraiser must
3950 complete the steps set forth in STANDARD 1.

3951 **STANDARD 5: REAL PROPERTY APPRAISAL CONSULTING, REPORTING**

3952 **In reporting the results of a real property appraisal consulting assignment, an appraiser**
3953 **must communicate each analysis, opinion, and conclusion in a manner that is not**
3954 **misleading.**

3955 Comment: STANDARD 5 addresses the content and level of information
3956 required in a report that communicates the results of a real property appraisal
3957 consulting assignment.

3958 An appraiser must explain logically and convincingly the reasoning that leads to
3959 his or her conclusions. The flow of information must be orderly and progressive.
3960 The intended users and intended use of the assignment results dictate the level of
3961 information necessary in the report. The level of information detail in the report
3962 must be sufficient to enable the client and intended users of the report to
3963 understand the appraisal consulting assignment results and not be misled.

3964 STANDARD 5 does not dictate the form, format, or style of real property
3965 appraisal consulting reports. The form, format, and style of a report are functions
3966 of the needs of users and appraisers. The substantive content of a report
3967 determines its compliance.

3968 **Standards Rule 5-1**

3969 **Each written or oral real property appraisal consulting report must:**

- 3970 (a) **clearly and accurately set forth the appraisal consulting assignment results in a**
3971 **manner that will not be misleading;**
- 3972 (b) **contain sufficient information to enable the intended users of the appraisal**
3973 **consulting assignment results to understand the report properly; and**
- 3974 (c) **clearly and accurately disclose all assumptions, extraordinary assumptions,**
3975 **hypothetical conditions, and limiting conditions used in the assignment.**

3976 Comment: The content of a real property appraisal consulting report must be
3977 sufficiently comprehensive so that an intended user can understand the problem
3978 addressed and the analyses, and follow the reasoning through each step of the
3979 analytical process. It is essential that throughout the report the data, analyses,
3980 assumptions and conclusions are logical and adequately supported.

3981 **Standards Rule 5-2**

3982 **The content of each written real property appraisal consulting report must be consistent**
3983 **with the intended use of the appraisal consulting assignment results and, at a minimum:**

- 3984 (a) **state the identity of the client and any intended users, by name or type;**

3985 Comment: An appraiser must use care when identifying the client to ensure a
3986 clear understanding and to avoid violations of the Confidentiality section of the
3987 ETHICS RULE. In those rare instances where the client wishes to remain
3988 anonymous, an appraiser must still document the identity of the client in the
3989 workfile, but may omit the client's identity in the report.

- 3990 Intended users of the report might include parties such as lenders, employees of
3991 government agencies, partners of a client, and a client's attorney and accountant.
- 3992 (b) **state the analysis, recommendation or opinion developed;**
- 3993 (c) **state the intended use of the appraisal consulting assignment;**
- 3994 (d) **state information sufficient to identify the real property pertinent to the appraisal**
3995 **consulting assignment, and state the physical, legal, and economic characteristics of**
3996 **the property, properties, property types, or market area pertinent to the**
3997 **assignment;**
- 3998 (e) **state the effective date of the appraisal consulting assignment results, the date of**
3999 **appraisal pertinent to each opinion of value used in an analysis in support of the**
4000 **appraisal consulting results, and the date of the appraisal consulting report;**
- 4001 (f) **state the scope of work used to develop the assignment results;**
- 4002 Comment: Because intended users' reliance on assignment results may be
4003 affected by the scope of work, the report must enable them to be properly
4004 informed and not misled. Sufficient information includes disclosure of research
4005 and analyses performed and might also include disclosure of research and
4006 analyses not performed.
4007
- 4008 When any portion of the work involves significant real property appraisal or
4009 appraisal consulting assistance, the appraisal consultant must describe the extent
4010 of that assistance. The signing consulting appraiser must also state the name(s) of
4011 those providing significant real property appraisal or appraisal consulting
4012 assistance in the certification, in accordance with SR 5-3.
- 4013 (g) **summarize the information used in the appraisal consulting analyses, the appraisal**
4014 **consulting methods and techniques employed, and the reasoning that supports the**
4015 **analyses, opinions, and conclusions;**
- 4016 Comment: If the value opinion used in the appraisal consulting assignment was
4017 not performed by the consulting appraiser, the appraisal consulting report must
4018 include:
- 4019 • the information required in Standards Rule 3-2, or
4020 • a statement of the appraisal review results, and a reference to the appraisal
4021 review documentation retained in the appraisal consultant's appraisal
4022 consulting assignment workfile, or
4023 • a statement supporting the use of that appraisal as an extraordinary
4024 assumption in the appraisal consulting assignment.
- 4025 If an opinion of value was developed by the consulting appraiser, the appraisal
4026 consulting report must include the information required to comply with Standards
4027 Rule 2-2(a) or (b)(ii) through (xi). Standards Rule 2-2(c)(ii) through (xi) is also
4028 permitted if the client is the only intended user of the assignment results.
- 4029 (h) **state the appraiser's appraisal consulting recommendations (if any), and**
4030 **conclusions or opinions;**

4031 (i) clearly and conspicuously:

- 4032 • state all extraordinary assumptions and hypothetical conditions; and
- 4033 • state that their use might have affected the assignment results; and

4034 (j) include a signed certification in accordance with Standards Rule 5-3.

4035 **Standards Rule 5-3**

4036 Each written real property appraisal consulting report must contain a signed certification
4037 that is similar in content to the following form:

4038 I certify that, to the best of my knowledge and belief:

- 4039 — the statements of fact contained in this report are true and correct.
- 4040 — the reported analyses, opinions, and conclusions are limited only by the
- 4041 reported assumptions and limiting conditions, and are my personal,
- 4042 impartial, and unbiased professional analyses, opinions, conclusions, and
- 4043 recommendations.
- 4044 — I have no (or the specified) present or prospective interest in the property
- 4045 that is the subject of this report, and I have no (or the specified) personal
- 4046 interest with respect to the parties involved.
- 4047 — I have no bias with respect to any property that is the subject of this report
- 4048 or to the parties involved with this assignment.
- 4049 — my engagement in this assignment was not contingent upon developing or
- 4050 reporting predetermined results.
- 4051 — my compensation for completing this assignment is not contingent upon
- 4052 the development or reporting of a predetermined value or direction in
- 4053 value that favors the cause of the client, the amount of the value opinion,
- 4054 the attainment of a stipulated result, or the occurrence of a subsequent
- 4055 event directly related to the intended use of this appraisal consulting
- 4056 assignment.
- 4057 — my analyses, opinions, and conclusions were developed, and this report has
- 4058 been prepared, in conformity with the *Uniform Standards of Professional*
- 4059 *Appraisal Practice*.
- 4060 — I have (or have not) made a personal inspection of the property that is the
- 4061 subject of this report. (If more than one person signs this certification, the
- 4062 certification must clearly specify which individuals did and which
- 4063 individuals did not make a personal inspection of the property).
- 4064 — no one provided significant real property appraisal or appraisal consulting
- 4065 assistance to the person signing this certification. (If there are exceptions,
- 4066 the name of each individual providing significant real property appraisal
- 4067 or appraisal consulting assistance must be stated.)

4068 Comment: A signed certification is an integral part of the appraisal consulting
4069 report. An appraiser who signs any part of the appraisal consulting report,
4070 including a letter of transmittal, must also sign the certification.

4071 In an assignment that includes only assignment results developed by the real
4072 property appraiser(s), any appraiser(s) who signs a certification accepts full
4073 responsibility for all elements of the certification, for the assignment results, and
4074 for the contents of the appraisal consulting report. In an assignment that includes

4075 personal property, business or intangible asset assignment results not developed
4076 by the real property appraiser(s), any real property appraiser(s) who signs a
4077 certification accepts full responsibility for the real property elements of the
4078 certification, for the real property assignment results, and for the real property
4079 contents of the appraisal consulting report.

4080 If the signing consulting appraiser(s) has relied on work from others, who do not
4081 sign the certification, then the signing consulting appraiser(s) is responsible for
4082 the decision to rely on such work. The signing consulting appraiser is required to
4083 have a reasonable basis for believing that those individuals performing the work
4084 are competent and that their work is credible.

4085 The names of individuals providing significant real property appraisal or
4086 appraisal consulting assistance who do not sign the certification must be stated in
4087 the certification. It is not required that the description of their assistance be
4088 contained in the certification, but disclosure of their assistance is required in
4089 accordance with SR 5-2(f).

4090 **Standards Rule 5-4**

4091 **To the extent that it is both possible and appropriate, an oral real property appraisal**
4092 **consulting report must address the substantive matters set forth in Standards Rule 5-2.**

4093 Comment: See the Record Keeping section of the ETHICS RULE for
4094 corresponding requirements.

4095 **STANDARD 6: MASS APPRAISAL, DEVELOPMENT AND REPORTING**

4096 **In developing a mass appraisal, an appraiser must be aware of, understand, and correctly**
4097 **employ those recognized methods and techniques necessary to produce and communicate**
4098 **credible mass appraisals.**

4099 Comment: STANDARD 6 applies to all mass appraisals of real or personal
4100 property regardless of the purpose or use of such appraisals. STANDARD 6 is
4101 directed toward the substantive aspects of developing and communicating
4102 credible analyses, opinions, and conclusions in the mass appraisal of properties.
4103 Mass appraisals can be prepared with or without computer assistance. The
4104 reporting and jurisdictional exceptions applicable to public mass appraisals
4105 prepared for ad valorem taxation do not apply to mass appraisals prepared for
4106 other purposes.

4107 A mass appraisal includes:

- 4108 1) identifying properties to be appraised;
- 4109 2) defining market area of consistent behavior that applies to properties;
- 4110 3) identifying characteristics (supply and demand) that affect the creation of
- 4111 value in that market area;
- 4112 4) developing a model structure that reflects the relationship among the
- 4113 characteristics affecting value in the market area;
- 4114 5) calibrating the model structure to determine the contribution of the
- 4115 individual characteristics affecting value;
- 4116 6) applying the conclusions reflected in the model to the characteristics of
- 4117 the property(ies) being appraised; and
- 4118 7) reviewing the mass appraisal results.

4119 The JURISDICTIONAL EXCEPTION RULE may apply to several sections of
4120 STANDARD 6 because ad valorem tax administration is subject to various state,
4121 county, and municipal laws.

4122 **Standards Rule 6-1**

4123 **In developing a mass appraisal, an appraiser must:**

- 4124 (a) **be aware of, understand, and correctly employ those recognized methods and**
4125 **techniques necessary to produce a credible mass appraisal;**

4126 Comment: Mass appraisal provides for a systematic approach and uniform
4127 application of appraisal methods and techniques to obtain estimates of value that
4128 allow for statistical review and analysis of results.

4129 This requirement recognizes that the principle of change continues to affect the
4130 manner in which appraisers perform mass appraisals. Changes and developments
4131 in the real property and personal property fields have a substantial impact on the
4132 appraisal profession.

4133 To keep abreast of these changes and developments, the appraisal profession is
4134 constantly reviewing and revising appraisal methods and techniques and devising
4135 new methods and techniques to meet new circumstances. For this reason it is not
4136 sufficient for appraisers to simply maintain the skills and the knowledge they

4137 possess when they become appraisers. Each appraiser must continuously improve
4138 his or her skills to remain proficient in mass appraisal.

4139 **(b) not commit a substantial error of omission or commission that significantly affects a**
4140 **mass appraisal; and**

4141 Comment: An appraiser must use sufficient care to avoid errors that would
4142 significantly affect his or her opinions and conclusions. Diligence is required to
4143 identify and analyze the factors, conditions, data, and other information that
4144 would have a significant effect on the credibility of the assignment results.

4145 **(c) not render a mass appraisal in a careless or negligent manner.**

4146 Comment: Perfection is impossible to attain, and competence does not require
4147 perfection. However, an appraiser must not render appraisal services in a careless
4148 or negligent manner. This Standards Rule requires an appraiser to use due
4149 diligence and due care.

4150 **Standards Rule 6-2**

4151 **In developing a mass appraisal, an appraiser must:**

4152 **(a) identify the client and other intended users;**

4153 **(b) identify the intended use of the appraisal;**

4154 Comment: An appraiser must not allow the intended use of an assignment or a
4155 client's objectives to cause the assignment results to be biased.

4156 **(c) identify the type and definition of value, and, if the value opinion to be developed is**
4157 **market value, ascertain whether the value is to be the most probable price:**

4158 **(i) in terms of cash; or**

4159 **(ii) in terms of financial arrangements equivalent to cash; or**

4160 **(iii) in such other terms as may be precisely defined; and**

4161 **(iv) if the opinion of value is based on non-market financing or financing with**
4162 **unusual conditions or incentives, the terms of such financing must be clearly**
4163 **identified and the appraiser's opinion of their contributions to or negative**
4164 **influence on value must be developed by analysis of relevant market data;**

4165 Comment: For certain types of appraisal assignments in which a legal definition
4166 of market value has been established and takes precedence, the
4167 JURISDICTIONAL EXCEPTION RULE may apply.

4168 **(d) identify the effective date of the appraisal;**

4169 **(e) identify the characteristics of the properties that are relevant to the type and**
4170 **definition of value and intended use, including:**

- 4171 (i) the group with which a property is identified according to similar market
4172 influence;
- 4173 (ii) the appropriate market area and time frame relative to the property being
4174 valued; and
- 4175 (iii) their location and physical, legal, and economic characteristics.
- 4176 Comment: The properties must be identified in general terms, and each
4177 individual property in the universe must be identified, with the information on its
4178 identity stored or referenced in its property record.
- 4179 When appraising proposed improvements, an appraiser must examine and have
4180 available for future examination, plans, specifications, or other documentation
4181 sufficient to identify the scope and character of the proposed improvements.
- 4182 Ordinarily, proposed improvements are not appraised for ad valorem tax.
4183 Appraisers, however, are sometimes asked to provide opinions of value of
4184 proposed improvements so that developers can estimate future property tax
4185 burdens. Sometimes units in condominiums and planned unit developments are
4186 sold with an interest in unbuilt community property, the pro rata value of which,
4187 if any, must be considered in the analysis of sales data.
- (f) identify the characteristics of the market that are relevant to the purpose and
intended use of the mass appraisal including:
- 4188 (i) location of the market area;
- 4189 (ii) physical, legal, and economic attributes;
- 4190 (iii) time frame of market activity; and
- 4191 (iv) property interests reflected in the market.
- 4192 (g) in appraising real property or personal property:
- 4193 (i) identify the appropriate market area and time frame relative to the property
4194 being valued;
- 4195 (ii) when the subject is real property, identify and consider any personal
4196 property, trade fixtures, or intangibles that are not real property but are
4197 included in the appraisal;
- 4198 (iii) when the subject is personal property, identify and consider any real
4199 property or intangibles that are not personal property but are included in
4200 the appraisal;
- 4201 (iv) identify known easements, restrictions, encumbrances, leases, reservations,
4202 covenants, contracts, declarations, special assessments, ordinances, or other
4203 items of similar nature; and

4204 (v) **identify and analyze whether an appraised fractional interest, physical**
4205 **segment or partial holding contributes pro rata to the value of the whole;**

4206 Comment: The above requirements do not obligate the appraiser to value
4207 the whole when the subject of the appraisal is a fractional interest,
4208 physical segment, or a partial holding. However, if the value of the
4209 whole is not identified, the appraisal must clearly reflect that the value of
4210 the property being appraised cannot be used to develop the value opinion
4211 of the whole by mathematical extension.

4212 (h) **analyze the relevant economic conditions at the time of the valuation, including**
4213 **market acceptability of the property and supply, demand, scarcity, or rarity.**

4214 (i) **identify any extraordinary assumptions and any hypothetical conditions necessary**
4215 **in the assignment; and**

4216 Comment: An extraordinary assumption may be used in an assignment only if:

- 4217 • it is required to properly develop credible opinions and conclusions;
- 4218 • the appraiser has a reasonable basis for the extraordinary assumption;
- 4219 • use of the extraordinary assumption results in a credible analysis; and
- 4220 • the appraiser complies with the disclosure requirements set forth in
- 4221 USPAP for extraordinary assumptions.

4222 A hypothetical condition may be used in an assignment only if:

- 4223 • use of the hypothetical condition is clearly required for legal purposes,
- 4224 for purposes of reasonable analysis, or for purposes of comparison;
- 4225 • use of the hypothetical condition results in a credible analysis; and
- 4226 • the appraiser complies with the disclosure requirements set forth in
- 4227 USPAP for hypothetical conditions.

4228 (j) **determine the scope of work necessary to produce credible assignment results in**
4229 **accordance with the SCOPE OF WORK RULE;**

4230 **Standards Rule 6-3**

4231 **When necessary for credible assignment results, an appraiser must:**

4232
4233 (a) **in appraising real property, identify and analyze the effect on use and value of the**
4234 **following factors: existing land use regulations, reasonably probable modifications**
4235 **of such regulations, economic supply and demand, the physical adaptability of the**
4236 **real estate, neighborhood trends, and highest and best use of the real estate; and**

4237 Comment: This requirement sets forth a list of factors that affect use and value.
4238 In considering neighborhood trends, an appraiser must avoid stereotyped or
4239 biased assumptions relating to race, age, color, gender, or national origin or an
4240 assumption that race, ethnic, or religious homogeneity is necessary to maximize
4241 value in a neighborhood. Further, an appraiser must avoid making an
4242 unsupported assumption or premise about neighborhood decline, effective age,
4243 and remaining life. In considering highest and best use, an appraiser must

4244 develop the concept to the extent required for a proper solution to the appraisal
4245 problem.

4246 (b) **in appraising personal property: identify and analyze the effects on use and value of**
4247 **industry trends, value-in-use, and trade level of personal property. Where**
4248 **applicable, identify the effect of highest and best use by measuring and analyzing**
4249 **the current use and alternative uses to encompass what is profitable, legal, and**
4250 **physically possible, as relevant to the type and definition of value and intended use**
4251 **of the appraisal. Personal property has several measurable marketplaces;**
4252 **therefore, the appraiser must define and analyze the appropriate market consistent**
4253 **with the type and definition of value; and**

4254 Comment: The appraiser must recognize that there are distinct levels of trade and
4255 each may generate its own data. For example, a property may have a different
4256 value at a wholesale level of trade, a retail level of trade, or under various auction
4257 conditions. Therefore, the appraiser must analyze the subject property within the
4258 correct market context.

4259 **Standards Rule 6-4**

4260 **In developing a mass appraisal, an appraiser must:**

4261 (a) **identify the appropriate procedures and market information required to perform**
4262 **the appraisal, including all physical, functional, and external market factors as they**
4263 **may affect the appraisal;**

4264 Comment: Such efforts customarily include the development of standardized data
4265 collection forms, procedures, and training materials that are used uniformly on
4266 the universe of properties under consideration.

4267 (b) **employ recognized techniques for specifying property valuation models; and**

4268 Comment: The formal development of a model in a statement or equation is
4269 called model specification. Mass appraisers must develop mathematical models
4270 that, with reasonable accuracy, represent the relationship between property value
4271 and supply and demand factors, as represented by quantitative and qualitative
4272 property characteristics. The models may be specified using the cost, sales
4273 comparison, or income approaches to value. The specification format may be
4274 tabular, mathematical, linear, nonlinear, or any other structure suitable for
4275 representing the observable property characteristics. Appropriate approaches
4276 must be used in appraising a class of properties. The concept of recognized
4277 techniques applies to both real and personal property valuation models.

4278 (c) **employ recognized techniques for calibrating mass appraisal models.**

4279 Comment: Calibration refers to the process of analyzing sets of property and
4280 market data to determine the specific parameters of a model. The table entries in
4281 a cost manual are examples of calibrated parameters, as well as the coefficients in
4282 a linear or nonlinear model. Models must be calibrated using recognized
4283 techniques, including, but not limited to, multiple linear regression, nonlinear
4284 regression, and adaptive estimation.

4285 **Standards Rule 6-5**

4286 **In developing a mass appraisal, when necessary for credible assignment results, an**
4287 **appraiser must:**

- 4288 (a) **collect, verify, and analyze such data as are necessary and appropriate to develop:**
- 4289 (i) **the cost new of the improvements;**
- 4290 (ii) **accrued depreciation;**
- 4291 (iii) **value of the land by sales of comparable properties;**
- 4292 (iv) **value of the property by sales of comparable properties;**
- 4293 (v) **value by capitalization of income or potential earnings—i.e., rentals,**
4294 **expenses, interest rates, capitalization rates, and vacancy data;**

4295 Comment: This Standards Rule requires appraisers engaged in mass appraisal to
4296 take reasonable steps to ensure that the quantity and quality of the factual data
4297 that are collected are sufficient to produce credible appraisals. For example, in
4298 real property, where applicable and feasible, systems for routinely collecting and
4299 maintaining ownership, geographic, sales, income and expense, cost, and
4300 property characteristics data must be established. Geographic data must be
4301 contained in as complete a set of cadastral maps as possible, compiled according
4302 to current standards of detail and accuracy. Sales data must be collected,
4303 confirmed, screened, adjusted, and filed according to current standards of
4304 practice. The sales file must contain, for each sale, property characteristics data
4305 that are contemporaneous with the date of sale. Property characteristics data must
4306 be appropriate and relevant to the mass appraisal models being used. The
4307 property characteristics data file must contain data contemporaneous with the
4308 date of appraisal including historical data on sales, where appropriate and
4309 available. The data collection program must incorporate a quality control
4310 program, including checks and audits of the data to ensure current and consistent
4311 records.

- 4312 (b) **base estimates of capitalization rates and projections of future rental rates and/or**
4313 **potential earnings capacity, expenses, interest rates, and vacancy rates on**
4314 **reasonable and appropriate evidence;**

4315 Comment: This requirement calls for an appraiser, in developing income and
4316 expense statements and cash flow projections, to weigh historical information
4317 and trends, current market factors affecting such trends, and reasonably
4318 anticipated events, such as competition from developments either planned or
4319 under construction.

- 4320 (c) **identify and, as applicable, analyze terms and conditions of any available leases; and**
- 4321 (d) **identify the need for and extent of any physical inspection.**

4322 **Standards Rule 6-6**

4323 **When necessary for credible assignment results in applying a calibrated mass appraisal**
4324 **model an appraiser must:**

4325 (a) **value improved parcels by recognized methods or techniques based on the cost**
4326 **approach, the sales comparison approach, and income approach;**

4327 (b) **value sites by recognized methods or techniques; such techniques include but are**
4328 **not limited to the sales comparison approach, allocation method, abstraction**
4329 **method, capitalization of ground rent, and land residual technique;**

4330 (c) **when developing the value of a leased fee estate or a leasehold estate, analyze the**
4331 **effect on value, if any, of the terms and conditions of the lease;**

4332 Comment: In ad valorem taxation the appraiser may be required by rules or law
4333 to appraise the property as if in fee simple, as though unencumbered by existing
4334 leases. In such cases, market rent would be used in the appraisal, ignoring the
4335 effect of the individual, actual contract rents.

4336 (d) **analyze the effect on value, if any, of the assemblage of the various parcels, divided**
4337 **interests, or component parts of a property; the value of the whole must not be**
4338 **developed by adding together the individual values of the various parcels, divided**
4339 **interests, or component parts; and**

4340 Comment: When the value of the whole has been established and the appraiser
4341 seeks to value a part, the value of any such part must be tested by reference to
4342 appropriate market data and supported by an appropriate analysis of such data.

4343 (e) **when analyzing anticipated public or private improvements, located on or**
4344 **off the site, analyze the effect on value, if any, of such anticipated**
4345 **improvements to the extent they are reflected in market actions;**

4346 **Standards Rule 6-7**

4347 **In reconciling a mass appraisal an appraiser must:**

4348 (a) **reconcile the quality and quantity of data available and analyzed within the**
4349 **approaches used and the applicability or suitability of the approaches used; and**

4350 (b) **employ recognized mass appraisal testing procedures and techniques to ensure that**
4351 **standards of accuracy are maintained.**

4352 Comment: It is implicit in mass appraisal that, even when properly specified and
4353 calibrated mass appraisal models are used, some individual value conclusions
4354 will not meet standards of reasonableness, consistency, and accuracy. However,
4355 appraisers engaged in mass appraisal have a professional responsibility to ensure
4356 that, on an overall basis, models produce value conclusions that meet attainable
4357 standards of accuracy. This responsibility requires appraisers to evaluate the
4358 performance of models, using techniques that may include but are not limited to,
4359 goodness-of-fit statistics, and model performance statistics such as appraisal-to-
4360 sale ratio studies, evaluation of hold-out samples, or analysis of residuals.

4361 **Standards Rule 6-8**

4362 **A written report of a mass appraisal must clearly communicate the elements, results,**
4363 **opinions, and value conclusions of the appraisal.**

4364 **Each written report of a mass appraisal must:**

4365 **(a) clearly and accurately set forth the appraisal in a manner that will not be**
4366 **misleading;**

4367 **(b) contain sufficient information to enable the intended users of the appraisal to**
4368 **understand the report properly;**

4369 Comment: Documentation for a mass appraisal for ad valorem taxation may be in
4370 the form of (1) property records, (2) sales ratios and other statistical studies, (3)
4371 appraisal manuals and documentation, (4) market studies, (5) model building
4372 documentation, (6) regulations, (7) statutes, and (8) other acceptable forms.

4373 **(c) clearly and accurately disclose all assumptions, extraordinary assumptions,**
4374 **hypothetical conditions, and limiting conditions used in the assignment;**

4375 Comment: The report must clearly and conspicuously:

4376 • state all extraordinary assumptions and hypothetical conditions; and

4377 • state that their use might have affected the assignment results.

4378 **(d) state the identity of the client and any intended users, by name or type;**

4379 **(e) state the intended use of the appraisal;**

4380 **(f) disclose any assumptions or limiting conditions that result in deviation from**
4381 **recognized methods and techniques or that affect analyses, opinions, and**
4382 **conclusions;**

4383 **(g) set forth the effective date of the appraisal and the date of the report;**

4384 Comment: In ad valorem taxation the effective date of the appraisal may be
4385 prescribed by law. If no effective date is prescribed by law, the effective date of
4386 the appraisal, if not stated, is presumed to be contemporaneous with the data and
4387 appraisal conclusions.

4388 The effective date of the appraisal establishes the context for the value opinion,
4389 while the date of the report indicates whether the perspective of the appraiser on
4390 the market or property use conditions as of the effective date of the appraisal was
4391 prospective, current, or retrospective.

4392 Reiteration of the date of the report and the effective date of the appraisal at
4393 various stages of the report in tandem is important for the clear understanding of
4394 the reader whenever market or property use conditions on the date of the report
4395 are different from such conditions on the effective date of the appraisal.

- 4396 **(h) state the type and definition of value and cite the source of the definition;**
- 4397 Comment: Stating the type and definition of value also requires any comments
4398 needed to clearly indicate to intended users how the definition is being applied.
- 4399 When reporting an opinion of market value, state whether the opinion of value is:
- 4400
 - In terms of cash or of financing terms equivalent to cash; or
 - Based on non-market financing with unusual conditions or incentives.
- 4401
- 4402 When an opinion of market value is not in terms of cash or based on financing
4403 terms equivalent to cash, summarize the terms of such financing and explain their
4404 contributions to or negative influence on value.
- 4405 **(i) identify the properties appraised including the property rights;**
- 4406 Comment: The report documents the sources for location, describing and listing
4407 the property. When applicable, include references to legal descriptions,
4408 addresses, parcel identifiers, photos, and building sketches. In mass appraisal this
4409 information is often included in property records. When the property rights to be
4410 appraised are specified in a statute or court ruling, the law must be referenced.
- 4411 **(j) describe the scope of work used to develop the appraisal; exclusion of the sales**
4412 **comparison approach, cost approach, or income approach must be explained;**
- 4413 Comment: Because intended users' reliance on an appraisal may be affected by
4414 the scope of work, the report must enable them to be properly informed and not
4415 misled. Sufficient information includes disclosure of research and analyses
4416 performed and might also include disclosure of research and analyses not
4417 performed.
- 4418 When any portion of the work involves significant mass appraisal assistance, the
4419 appraiser must describe the extent of that assistance. The signing appraiser must
4420 also state the name(s) of those providing the significant mass appraisal assistance
4421 in the certification, in accordance with SR 6-9.
- 4422 **(k) describe and justify the model specification(s) considered, data requirements, and**
4423 **the model(s) chosen;**
- 4424 Comment: The appraiser must provide sufficient information to enable the client
4425 and intended users to have confidence that the process and procedures used
4426 conform to accepted methods and result in credible value conclusions. In the case
4427 of mass appraisal for ad valorem taxation, stability and accuracy are important to
4428 the credibility of value opinions. The report must include a discussion of the
4429 rationale for each model, the calibration techniques to be used, and the
4430 performance measures to be used.
- 4431 **(l) describe the procedure for collecting, validating, and reporting data;**
- 4432 Comment: The report must describe the sources of data and the data collection
4433 and validation processes. Reference to detailed data collection manuals must be
4434 made, as appropriate, including where they may be found for inspection.

4435 (m) describe calibration methods considered and chosen, including the mathematical
4436 form of the final model(s); describe how value conclusions were reviewed; and, if
4437 necessary, describe the availability of individual value conclusions;

4438 (n) when an opinion of highest and best use was developed, discuss how that opinion
4439 was determined;

4440 Comment: The mass appraisal report must reference case law, statute, or public
4441 policy that describes highest and best use requirements. When actual use is the
4442 requirement, the report must discuss how use-value opinions were developed.
4443 The appraiser's reasoning in support of the highest and best use opinion must be
4444 provided in the depth and detail required by its significance to the appraisal.

4445 (o) identify the appraisal performance tests used and set forth the performance
4446 measures attained;

4447 (p) describe the reconciliation performed, in accordance with Standards Rule 6-7; and

4448 (q) include a signed certification in accordance with Standards Rule 6-9.

4449 **Standards Rule 6-9**

4450 Each written mass appraisal report must contain a signed certification that is similar in
4451 content to the following form:

4452 I certify that, to the best of my knowledge and belief:

- 4453 — the statements of fact contained in this report are true and correct.
- 4454 — the reported analyses, opinions, and conclusions are limited only by the
4455 reported assumptions and limiting conditions, and are my personal,
4456 impartial, and unbiased professional analyses, opinions, and conclusions.
- 4457 — I have no (or the specified) present or prospective interest in the property
4458 that is the subject of this report, and I have no (or the specified) personal
4459 interest with respect to the parties involved.
- 4460 — I have no bias with respect to any property that is the subject of this report
4461 or to the parties involved with this assignment.
- 4462 — my engagement in this assignment was not contingent upon developing or
4463 reporting predetermined results.
- 4464 — my compensation for completing this assignment is not contingent upon the
4465 reporting of a predetermined value or direction in value that favors the
4466 cause of the client, the amount of the value opinion, the attainment of a
4467 stipulated result, or the occurrence of a subsequent event directly related to
4468 the intended use of this appraisal.
- 4469 — my analyses, opinions, and conclusions were developed, and this report has
4470 been prepared, in conformity with the *Uniform Standards of Professional*
4471 *Appraisal Practice*.
- 4472 — I have (or have not) made a personal inspection of the properties that are the
4473 subject of this report. (If more than one person signs the report, this
4474 certification must clearly specify which individuals did and which
4475 individuals did not make a personal inspection of the appraised property.)

4476 — **no one provided significant mass appraisal assistance to the person signing**
4477 **this certification. (If there are exceptions, the name of each individual**
4478 **providing significant mass appraisal assistance must be stated.)**

4479 Comment: The above certification is not intended to disturb an elected or
4480 appointed assessor's work plans or oaths of office. A signed certification is an
4481 integral part of the appraisal report. An appraiser, who signs any part of the mass
4482 appraisal report, including a letter of transmittal, must also sign this certification.

4483 In an assignment that includes only assignment results developed by the real
4484 property appraiser(s), any appraiser(s) who signs a certification accepts full
4485 responsibility for all elements of the certification, for the assignment results, and
4486 for the contents of the appraisal report. In an assignment that includes personal
4487 property assignment results not developed by the real property appraiser(s), any
4488 real property appraiser(s) who signs a certification accepts full responsibility for
4489 the real property elements of the certification, for the real property assignment
4490 results, and for the real property contents of the appraisal report.

4491 In an assignment that includes only assignment results developed by the personal
4492 property appraiser(s), any appraiser(s) who signs a certification accepts full
4493 responsibility for all elements of the certification, for the assignment results, and
4494 for the contents of the appraisal report. In an assignment that includes real
4495 property assignment results not developed by the personal property appraiser(s),
4496 any personal property appraiser(s) who signs a certification accepts full
4497 responsibility for the personal property elements of the certification, for the
4498 personal property assignment results, and for the personal property contents of
4499 the appraisal report.

4500 When a signing appraiser(s) has relied on work done by others who do not sign
4501 the certification, the signing appraiser is responsible for the decision to rely on
4502 their work. The signing appraiser(s) is required to have a reasonable basis for
4503 believing that those individuals performing the work are competent and that their
4504 work is credible.

4505 The names of individuals providing significant mass appraisal assistance who do
4506 not sign a certification must be stated in the certification. It is not required that
4507 the description of their assistance be contained in the certification, but disclosure
4508 of their assistance is required in accordance with SR 6-8(j).

4509 **STANDARD 7: PERSONAL PROPERTY APPRAISAL, DEVELOPMENT**

4510 **In developing a personal property appraisal, an appraiser must identify the problem to be**
4511 **solved, determine the scope of work necessary to solve the problem and correctly complete**
4512 **research and analyses necessary to produce a credible appraisal.**

4513 Comment: STANDARD 7 is directed toward the substantive aspects of
4514 developing a credible appraisal of personal property. The requirements set forth
4515 in STANDARD 7 follow the appraisal development process in the order of topics
4516 addressed and can be used by appraisers and the users of appraisal services as a
4517 convenient checklist.

4518 **Standards Rule 7-1**

4519 **In developing a personal property appraisal, an appraiser must:**

4520 (a) **be aware of, understand, and correctly employ those recognized methods and**
4521 **techniques that are necessary to produce a credible appraisal;**

4522 Comment: This Standards Rule recognizes that the principle of change continues
4523 to affect the manner in which appraisers perform appraisal services. Changes and
4524 developments in personal property practice have a substantial impact on the
4525 appraisal profession. Important changes in the cost and manner of acquiring,
4526 producing, and marketing personal property and changes in the legal framework
4527 in which property rights and interests are created, marketed, conveyed, and
4528 financed have resulted in corresponding changes in appraisal theory and practice.
4529 Social change has also had an effect on appraisal theory and practice. To keep
4530 abreast of these changes and developments, the appraisal profession reviews and
4531 revises appraisal methods and techniques and develops methods and techniques
4532 to meet new circumstances. For this reason, it is not sufficient for appraisers to
4533 simply maintain the skills and the knowledge they possess when they become
4534 appraisers. Each appraiser must continuously improve his or her skills to remain
4535 proficient in personal property appraisal.

4536 (b) **not commit a substantial error of omission or commission that significantly affects**
4537 **an appraisal; and**

4538 Comment: An appraiser must use sufficient care to avoid errors that would
4539 significantly affect his or her opinions and conclusions. Diligence is required to
4540 identify and analyze the factors, conditions, data, and other information that
4541 would have a significant effect on the credibility of the assignment results.

4542 (c) **not render appraisal services in a careless or negligent manner, such as by making a**
4543 **series of errors that, although individually might not significantly affect the results**
4544 **of an appraisal, in the aggregate affect the credibility of those results.**

4545 Comment: Perfection is impossible to attain, and competence does not require
4546 perfection. However, an appraiser must not render appraisal services in a careless
4547 or negligent manner. This Rule requires an appraiser to use due diligence and due
4548 care.

4549 **Standards Rule 7-2**

4550 **In developing a personal property appraisal, an appraiser must:**

- 4551 (a) **identify the client and other intended users;**
- 4552 (b) **identify the intended use of the appraiser's opinions and conclusions;**
- 4553 Comment: An appraiser must not allow the intended use of an assignment or a
4554 client's objectives to cause the assignment results to be biased.
- 4555 (c) **identify the type and definition of value, and, if the value opinion to be developed is**
4556 **market value, ascertain whether the value is to be the most probable price:**
- 4557 (i) **in terms of cash; or**
- 4558 (ii) **in terms of financial arrangements equivalent to cash; or**
- 4559 (iii) **in other precisely defined terms; and**
- 4560 (iv) **if the opinion of value is to be based on non-market financing or financing**
4561 **with unusual conditions or incentives, the terms of such financing must be**
4562 **clearly identified and the appraiser's opinion of their contributions to or**
4563 **negative influence on value must be developed by analysis of relevant**
4564 **market data;**
- 4565 Comment: When developing an opinion of value in a specified market or
4566 at a specified market level based on the potential sale of the property, the
4567 appraiser must also develop an opinion of reasonable exposure time
4568 linked to the value opinion.
- 4569 (d) **identify the effective date of the appraiser's opinions and conclusions;**
- 4570 (e) **identify the characteristics of the property that are relevant to the type and**
4571 **definition of value and intended use of the appraisal, including:**
- 4572 (i) **sufficient characteristics to establish the identity of the item including the**
4573 **method of identification;**
- 4574 (ii) **sufficient characteristics to establish the relative quality of the item (and its**
4575 **component parts, where applicable) within its type;**
- 4576 (iii) **all other physical and economic attributes with a material effect on value;**
- 4577 Comment: Some examples of physical and economic characteristics
4578 include condition, style, size, quality, manufacturer, author, materials,
4579 origin, age, provenance, alterations, restorations, and obsolescence. The
4580 type of property, the type and definition of value, and intended use of the
4581 appraisal determine which characteristics have a material effect on value.
- 4582 (iv) **the ownership interest to be valued;**
- 4583 (v) **any known restrictions, encumbrances, leases, covenants, contracts,**
4584 **declarations, special assessments, ordinances, or other items of a similar**
4585 **nature; and**

4586 (vi) **any real property or intangible items that are not personal property but**
4587 **which are included in the appraisal.**

4588 Comment on (i)–(vi): The information used by an appraiser to identify
4589 the property characteristics must be from sources the appraiser
4590 reasonably believes are reliable.

4591 An appraiser may use any combination of a property inspection and
4592 documents or other resources to identify the relevant characteristics of
4593 the subject property.

4594 When appraising proposed modifications, an appraiser must examine and
4595 have available for future examination, plans, specifications, or other
4596 documentation sufficient to identify the scope and character of the
4597 proposed modifications.

4598 An appraiser may not be required to value the whole when the subject of
4599 the appraisal is a fractional interest, a physical segment, or a partial
4600 holding.

4601 (f) **identify any extraordinary assumptions necessary in the assignment;**

4602 Comment: An extraordinary assumption may be used in an assignment only if:

- 4603
 - it is required to properly develop credible opinions and conclusions;
 - 4604 • the appraiser has a reasonable basis for the extraordinary assumption;
 - 4605 • use of the extraordinary assumption results in a credible analysis; and
 - 4606 • the appraiser complies with the disclosure requirements set forth in USPAP
 - 4607 for extraordinary assumptions.

4608 (g) **identify any hypothetical conditions necessary in the assignment; and**

4609 Comment: A hypothetical condition may be used in an assignment only if:

- 4610
 - use of the hypothetical condition is clearly required for legal purposes, for
 - 4611 purposes of reasonable analysis, or for purposes of comparison;
 - 4612 • use of the hypothetical condition results in a credible analysis; and
 - 4613 • the appraiser complies with the disclosure requirements set forth in USPAP
 - 4614 for hypothetical conditions.

4615 (h) **determine the scope of work necessary to produce credible assignment results in**
4616 **accordance with the SCOPE OF WORK RULE.**

4617 **Standards Rule 7-3**

4618 **In developing a personal property appraisal, when necessary for credible assignment**
4619 **results, an appraiser must:**

4620 (a) **identify the effect of highest and best use by measuring and analyzing the current**
4621 **use and alternative uses to encompass what is profitable, legal, and physically**
4622 **possible, as relevant to the type and definition of value and intended use of the**
4623 **appraisal;**

4624 Comment: In the context of personal property, highest and best use may equate to
4625 the choice of the appropriate market or market level for the type of item, the type
4626 and definition of value, and intended use of the appraisal.

4627 **(b) define and analyze the appropriate market consistent with the type and definition of**
4628 **value; and**

4629 Comment: The appraiser must recognize that there are distinct levels of trade
4630 (measurable marketplaces) and each may generate its own data. For example, a
4631 property may have a different value at a wholesale level of trade, a retail level of
4632 trade, or under various auction conditions. Therefore, the appraiser must analyze
4633 the subject property within the correct market context.

4634 **(c) analyze the relevant economic conditions at the time of the valuation, including**
4635 **market acceptability of the property and supply, demand, scarcity, or rarity.**

4636 **Standards Rule 7-4**

4637 **In developing a personal property appraisal, an appraiser must collect, verify, and analyze**
4638 **all information necessary for credible assignment results.**

4639 **(a) When a sales comparison approach is necessary for credible assignment results, an**
4640 **appraiser must analyze such comparable sales data as are available to indicate a**
4641 **value conclusion.**

4642 **(b) When a cost approach is necessary for credible assignment results, an appraiser**
4643 **must:**

4644 **(i) analyze such comparable cost data as are available to estimate the cost new**
4645 **of the property; and**

4646 **(ii) analyze such comparable data as are available to estimate the difference**
4647 **between cost new and the present worth of the property (accrued**
4648 **depreciation).**

4649 **(c) When an income approach is necessary for credible assignment results, an appraiser**
4650 **must:**

4651 **(i) analyze such comparable data as are available to estimate the market**
4652 **income of the property;**

4653 **(ii) analyze such comparable operating expense data as are available to estimate**
4654 **the operating expenses of the property;**

4655 **(iii) analyze such comparable data as are available to estimate rates of**
4656 **capitalization and/or rates of discount; and**

4657 **(iv) base projections of future income and expenses on reasonably clear and**
4658 **appropriate evidence.**

4659 Comment: An appraiser must, in developing income and expense
4660 statements and cash flow projections, weigh historical information and
4661 trends, current supply and demand factors affecting such trends, and
4662 competition.

4663 (d) When developing an opinion of the value of a lease or leased property, an appraiser
4664 must analyze the effect on value, if any, of the terms and conditions of the lease(s).

4665 (e) When analyzing the assemblage of the various component parts of a property, an
4666 appraiser must analyze the effect on value, if any, of the assemblage. An appraiser
4667 must refrain from valuing the whole solely by adding together the individual values
4668 of the various component parts.

4669 Comment: Although the value of the whole may be equal to the sum of the
4670 separate parts, it also may be greater than or less than the sum of such parts.
4671 Therefore, the value of the whole must be tested by reference to appropriate data
4672 and supported by an appropriate analysis of such data.

4673 A similar procedure must be followed when the value of the whole has been
4674 established and the appraiser seeks to value a part. The value of any such part
4675 must be tested by reference to appropriate data and supported by an appropriate
4676 analysis of such data.

4677 (f) When analyzing anticipated modifications to the subject property, an appraiser
4678 must analyze the effect on value, if any, of such modifications to the extent they are
4679 reflected in market actions.

4680 (g) When real property or intangible items are included in the appraisal, the appraiser
4681 must analyze the effect on value of such non-personal property items.

4682 Comment: When the scope of work includes an appraisal of real property or
4683 intangible items, competency in real property appraisal (see STANDARD 1) or
4684 business appraisal (see STANDARD 9) is required. In addition, competency in
4685 other types of personal property outside of the appraiser's specialty area may be
4686 necessary (see STANDARD 7 and the COMPETENCY RULE).

4687 **Standards Rule 7-5**

4688 When the value opinion to be developed is market value, an appraiser must, if such
4689 information is available to the appraiser in the normal course of business:

4690 (a) analyze all agreements of sale, validated offers or third-party offers to sell, options,
4691 and listings of the subject property current as of the effective date of the appraisal;
4692 and

4693 (b) analyze all prior sales of the subject property that occurred within a reasonable and
4694 applicable time period, given the intended use and the type of property involved.

4695 Comment: The data needed for the required analyses in SR 7-5(a) and 7-5(b)
4696 may not be available or relevant in all assignments. See the Comments to
4697 Standards Rules 8-2(a)(viii), 8-2(b)(viii), and 8-2(c)(viii) for corresponding
4698 reporting requirements.

4699 **Standards Rule 7-6**

4700 In developing a personal property appraisal, an appraiser must:

4701 (a) reconcile the quality and quantity of data available and analyzed within the
4702 approaches used; and

4703 (b) **reconcile the applicability or suitability of the approaches used to arrive at the value**
4704 **conclusion(s).**

4705 Comment: See the Comments to Standards Rules 8-2(a)(viii), 8-2(b)(viii), and 8-
4706 2(c)(viii) for corresponding reporting requirements.

4707 **STANDARD 8: PERSONAL PROPERTY APPRAISAL, REPORTING**

4708 **In reporting the results of a personal property appraisal, an appraiser must communicate**
4709 **each analysis, opinion, and conclusion in a manner that is not misleading.**

4710 Comment: STANDARD 8 addresses the content and level of information
4711 required in a report that communicates the results of a personal property
4712 appraisal.

4713 STANDARD 8 does not dictate the form, format, or style of personal property
4714 appraisal reports, which are functions of the needs of users and appraisers. The
4715 substantive content of a report determines its compliance.

4716 **Standards Rule 8-1**

4717 **Each written or oral personal property appraisal report must:**

- 4718 (a) **clearly and accurately set forth the appraisal in a manner that will not be**
4719 **misleading;**
- 4720 (b) **contain sufficient information to enable the intended users of the appraisal to**
4721 **understand the report properly; and**
- 4722 (c) **clearly and accurately disclose all assumptions, extraordinary assumptions,**
4723 **hypothetical conditions, and limiting conditions used in the assignment.**

4724 **Standards Rule 8-2**

4725 **Each written personal property appraisal report must be prepared under one of the**
4726 **following three options and prominently state which option is used: Self-Contained**
4727 **Appraisal Report, Summary Appraisal Report, or Restricted Use Appraisal Report.**

4728 Comment: When the intended users include parties other than the client, either a
4729 Self-Contained Appraisal Report or a Summary Appraisal Report must be
4730 provided. When the intended users do not include parties other than the client, a
4731 Restricted Use Appraisal Report may be provided.

4732 The essential difference among these three options is in the content and level of
4733 information provided. The intended users and intended use of the assignment
4734 results dictate which reporting option is appropriate and the level of information
4735 necessary in the report.

4736 An appraiser must use care when characterizing the type of report and level of
4737 information communicated upon completion of an assignment. An appraiser may
4738 use any other label in addition to, but not in place of, the label set forth in this
4739 Standard for the type of report provided.

4740 The report content and level of information requirements set forth in this
4741 Standard are minimums for each type of report. An appraiser must supplement a
4742 report form, when necessary, to ensure that any intended user of the appraisal is
4743 not misled and that the report complies with the applicable content requirements
4744 set forth in this Standards Rule.

- 4745 A party receiving a copy of a Self-Contained Appraisal Report, Summary
4746 Appraisal Report, or Restricted Use Appraisal Report in order to satisfy
4747 disclosure requirements does not become an intended user of the appraisal unless
4748 the appraiser identifies such party as an intended user as part of the assignment.
- 4749 (a) **The content of a Self-Contained Appraisal Report must be consistent with the**
4750 **intended use of the appraisal and, at a minimum:**
- 4751 (i) **state the identity of the client and any intended users, by name or type;**
- 4752 Comment: An appraiser must use care when identifying the client to
4753 ensure a clear understanding and to avoid violations of the
4754 Confidentiality section of the ETHICS RULE. In those rare instances
4755 where the client wishes to remain anonymous, an appraiser must still
4756 document the identity of the client in the workfile but may omit the
4757 client's identity in the report.
- 4758 (ii) **state the intended use of the appraisal;**
- 4759 (iii) **describe information sufficient to identify the property involved in the**
4760 **appraisal, including the physical and economic property characteristics**
4761 **relevant to the assignment;**
- 4762 (iv) **state the property interest appraised;**
- 4763 (v) **state the type and definition of value and cite the source of the definition;**
- 4764 Comment: Stating the definition of value also requires any comments
4765 needed to clearly indicate to the intended users how the definition is
4766 being applied.
- 4767 When reporting an opinion of market value, state whether the opinion of
4768 value is:
- 4769 • in terms of cash or of financing terms equivalent to cash, or
 - 4770 • based on non-market financing or financing with unusual conditions
4771 or incentives.
- 4772 When an opinion of market value is not in terms of cash or based on
4773 financing terms equivalent to cash, summarize the terms of such
4774 financing and explain their contributions to or negative influence on
4775 value.
- 4776 (vi) **state the effective date of the appraisal and the date of the report;**
- 4777 Comment: The effective date of the appraisal establishes the context for
4778 the value opinion, while the date of the report indicates whether the
4779 perspective of the appraiser on the market or property use conditions as
4780 of the effective date of the appraisal was prospective, current, or
4781 retrospective.
4782
- 4783 Reiteration of the date of the report and the effective date of the
4784 appraisal at various stages of the report in tandem is important for the

4785 clear understanding of the reader whenever market or property use
4786 conditions on the date of the report are different from such conditions
4787 on the effective date of the appraisal.

4788 **(vii) describe the scope of work used to develop the appraisal;**

4789 Comment: Because intended users' reliance on an appraisal may be
4790 affected by the scope of work, the report must enable them to be properly
4791 informed and not misled. Sufficient information includes disclosure of
4792 research and analyses performed and might also include disclosure of
4793 research and analyses not performed.

4794 When any portion of the work involves significant personal property
4795 appraisal assistance, the appraiser must describe the extent of that
4796 assistance. The signing appraiser must also state the name(s) of those
4797 providing the significant personal property appraisal assistance in the
4798 certification, in accordance with SR 8-3.

4799 **(viii) describe the information analyzed, the appraisal methods and techniques**
4800 **employed, and the reasoning that supports the analyses, opinions, and**
4801 **conclusions; exclusion of the sales comparison approach, cost approach, or**
4802 **income approach must be explained;**

4803 Comment: A Self-Contained Appraisal Report must include sufficient
4804 information to indicate that the appraiser complied with the requirements
4805 of STANDARD 7. The amount of detail required will vary with the
4806 significance of the information to the appraisal.

4807 The appraiser must provide sufficient information to enable the client
4808 and intended users to understand the rationale for the opinions and
4809 conclusions, including reconciliation of the data and approaches, in
4810 accordance with Standards Rule 7-6.

4811 When reporting an opinion of market value, a summary of the results of
4812 analyzing the subject sales, offers, options, and listings in accordance
4813 with Standards Rule 7-5 is required. If such information was
4814 unobtainable, a statement on the efforts undertaken by the appraiser to
4815 obtain the information is required. If such information is irrelevant, a
4816 statement acknowledging the existence of the information and citing its
4817 lack of relevance is required.

4818 **(ix) state, as appropriate to the class of personal property involved, the use of the**
4819 **property existing as of the date of value and the use of the property reflected**
4820 **in the appraisal; and, when an opinion of highest and best use was developed**
4821 **by the appraiser, describe the support and rationale for that opinion;**

4822 Comment: In the context of personal property, highest and best use may
4823 equate to the choice of the appropriate market or market level for the
4824 type of item, the type and definition of value, and intended use of the
4825 report.

4826 **(x) clearly and conspicuously:**

- 4827
 - state all extraordinary assumptions and hypothetical conditions; and

- 4828 • state that their use might have affected the assignment results;
- 4829 (xi) include a signed certification in accordance with Standards Rule 8-3.
- 4830 (b) **The content of a Summary Appraisal Report must be consistent with the intended**
4831 **use of the appraisal and, at a minimum:**
- 4832 Comment: The essential difference between the Self-Contained
4833 Appraisal Report and the Summary Appraisal Report is the level of detail
4834 of presentation.
- 4835 (i) **state the identity of the client and any intended users, by name or type;**
- 4836 Comment: An appraiser must use care when identifying the client to
4837 ensure a clear understanding and to avoid violations of the
4838 Confidentiality section of the ETHICS RULE. In those rare instances
4839 where the client wishes to remain anonymous, an appraiser must still
4840 document the identity of the client in the workfile but may omit the
4841 client's identity in the report.
- 4842 (ii) **state the intended use of the appraisal;**
- 4843 (iii) **summarize information sufficient to identify the property involved in the**
4844 **appraisal, including the physical and economic property characteristics**
4845 **relevant to the assignment;**
- 4846 (iv) **state the property interest appraised;**
- 4847 (v) **state the type and definition of value and cite the source of the definition;**
- 4848 Comment: Stating the definition of value also requires any comments
4849 needed to clearly indicate to the intended users how the definition is
4850 being applied.
- 4851 When reporting an opinion of market value, state whether the opinion of
4852 value is:
- 4853 • in terms of cash or of financing terms equivalent to cash, or
4854 • based on non-market financing or financing with unusual conditions
4855 or incentives.
- 4856 When an opinion of market value is not in terms of cash or based on
4857 financing terms equivalent to cash, summarize the terms of such
4858 financing and explain their contributions to or negative influence on
4859 value.
- 4860 (vi) **state the effective date of the appraisal and the date of the report;**
- 4861 Comment: The effective date of the appraisal establishes the context for
4862 the value opinion, while the date of the report indicates whether the
4863 perspective of the appraiser on the market or property use conditions as
4864 of the effective date of the appraisal was prospective, current, or
4865 retrospective.

4866 Reiteration of the date of the report and the effective date of the appraisal
4867 at various stages of the report in tandem is important for the clear
4868 understanding of the reader whenever market or property use conditions
4869 on the date of the report are different from such conditions on the
4870 effective date of the appraisal.

4871 **(vii) summarize the scope of work used to develop the appraisal;**

4872 Comment: Because intended users' reliance on an appraisal may be
4873 affected by the scope of work, the report must enable them to be properly
4874 informed and not misled. Sufficient information includes disclosure of
4875 research and analyses performed and might also include disclosure of
4876 research and analyses not performed.

4877 When any portion of the work involves significant personal property
4878 appraisal assistance, the appraiser must summarize the extent of that
4879 assistance. The signing appraiser must also state the name(s) of those
4880 providing the significant personal property appraisal assistance in the
4881 certification, in accordance with SR 8-3.

4882 **(viii) summarize the information analyzed, the appraisal methods and techniques**
4883 **employed, and the reasoning that supports the analyses, opinions, and**
4884 **conclusions; exclusion of the sales comparison approach, cost approach, or**
4885 **income approach must be explained;**

4886 Comment: A Summary Appraisal Report must include sufficient
4887 information to indicate that the appraiser complied with the requirements
4888 of STANDARD 7. The amount of detail required will vary with the
4889 significance of the information to the appraisal.

4890 The appraiser must provide sufficient information to enable the client
4891 and intended users to understand the rationale for the opinion and
4892 conclusions, including reconciliation of the data and approaches, in
4893 accordance with Standards Rule 7-6.

4894 When reporting an opinion of market value, a summary of the results of
4895 the analysis of the subject sales, offers, options, and listings in
4896 accordance with Standards Rule 7-5 is necessary. If such information
4897 was unobtainable, a statement on the efforts undertaken by the appraiser
4898 to obtain the information is required. If such information is irrelevant, a
4899 statement acknowledging the existence of the information and citing its
4900 lack of relevance is required.

4901 **(ix) state, as appropriate to the class of personal property involved, the use of the**
4902 **property existing as of the date of value and the use of the property reflected**
4903 **in the appraisal; and, when an opinion of highest and best use was developed**
4904 **by the appraiser, summarize the support and rationale for that opinion;**

4905 Comment: In the context of personal property, highest and best use may
4906 equate to the choice of the appropriate market or market level for the
4907 type of item and the type and definition of value and intended use of the
4908 report.

4909 **(x) clearly and conspicuously:**

- 4910 • state all extraordinary assumptions and hypothetical conditions; and
- 4911 • state that their use might have affected the assignment results; and
- 4912 (xi) include a signed certification in accordance with Standards Rule 8-3.
- 4913 (c) The content of a Restricted Use Appraisal Report must be consistent with the
4914 intended use of the appraisal and, at a minimum:
- 4915 (i) state the identity of the client, by name or type; and state a prominent use
4916 restriction that limits use of the report to the client and warns that the
4917 appraiser's opinions and conclusions set forth in the report may not be
4918 understood properly without additional information in the appraiser's
4919 workfile;
- 4920 Comment: An appraiser must use care when identifying the client to
4921 ensure a clear understanding and to avoid violations of the
4922 Confidentiality section of the ETHICS RULE. In those rare instances
4923 when the client wishes to remain anonymous, an appraiser must still
4924 document the identity of the client in the workfile but may omit the
4925 client's identity in the report.
- 4926 The Restricted Use Appraisal Report is for client use only. Before
4927 entering into an agreement, the appraiser should establish with the client
4928 the situations where this type of report is to be used and should ensure
4929 that the client understands the restricted utility of the Restricted Use
4930 Appraisal Report.
- 4931 (ii) state the intended use of the appraisal;
- 4932 Comment: The intended use of the appraisal must be consistent with the
4933 limitation on use of the Restricted Use Appraisal Report option in this
4934 Standards Rule (i.e., client use only).
- 4935 (iii) state information sufficient to identify the property involved in the
4936 appraisal;
- 4937 (iv) state the property interest appraised;
- 4938 (v) state the type of value, and cite the source of its definition;
- 4939 (vi) state the effective date of the appraisal and the date of the report;
- 4940 Comment: The effective date of the appraisal establishes the context for
4941 the value opinion, while the date of the report indicates whether the
4942 perspective of the appraiser on the market or property use conditions as
4943 of the effective date of the appraisal was prospective, current, or
4944 retrospective.
- 4945 (vii) state the scope of work used to develop the appraisal;

- 4946 Comment: Because the client's reliance on an appraisal may be affected
 4947 by the scope of work, the report must enable them to be properly
 4948 informed and not misled. Sufficient information includes disclosure of
 4949 research and analyses performed and might also include disclosure of
 4950 research and analyses not performed.
- 4951 When any portion of the work involves significant personal property
 4952 appraisal assistance, the appraiser must state the extent of that assistance.
 4953 The signing appraiser must also state the name(s) of those providing the
 4954 significant personal property appraisal assistance in the certification, in
 4955 accordance with SR 8-3.
- 4956 (viii) **state the appraisal methods and techniques employed, state the value**
 4957 **opinion(s) and conclusion(s) reached, and reference the workfile; exclusion**
 4958 **of the sales comparison approach, cost approach, or income approach must**
 4959 **be explained;**
- 4960 Comment: An appraiser must maintain a specific, coherent workfile in
 4961 support of a Restricted Use Appraisal Report. The contents of the
 4962 workfile must include sufficient information to indicate that the appraiser
 4963 complied with the requirements of STANDARD 7 and for the appraiser
 4964 to produce a Summary Appraisal Report. The file must be available for
 4965 inspection by the client (or the client's representatives, such as those
 4966 engaged to complete an appraisal review), state enforcement agencies,
 4967 such third parties as may be authorized by due process of law, and a duly
 4968 authorized professional peer review committee except when such
 4969 disclosure to a committee would violate applicable law or regulation.
- 4970 When reporting an opinion of market value, information analyzed in
 4971 compliance with Standards Rules 7-5 is significant information that must
 4972 be disclosed in a Restricted Use Appraisal Report. If such information
 4973 was unobtainable, a statement on the efforts undertaken by the appraiser
 4974 to obtain the information is required. If such information is irrelevant, a
 4975 statement acknowledging the existence of the information and citing its
 4976 lack of relevance is required.
- 4977 (ix) **state, as appropriate to the class of personal property involved, the use of the**
 4978 **property existing as of the date of value and the use of the property reflected**
 4979 **in the appraisal; and, when an opinion of highest and best use was developed**
 4980 **by the appraiser, state that opinion;**
- 4981 Comment: In the context of personal property, highest and best use may
 4982 equate to the choice of the appropriate market or market level for the
 4983 type of item, the type and definition of value, and intended use of the
 4984 report.
- 4985 (x) **clearly and conspicuously:**
- 4986 • **state all extraordinary assumptions and hypothetical conditions; and**
- 4987 • **state that their use might have affected the assignment results; and**
- 4988 (xi) **include a signed certification in accordance with Standards Rule 8-3.**

4989 **Standards Rule 8-3**

4990 **Each written personal property appraisal report must contain a signed certification that is**
4991 **similar in content to the following form:**

4992 **I certify that, to the best of my knowledge and belief:**

- 4993 — **the statements of fact contained in this report are true and correct.**
4994 — **the reported analyses, opinions, and conclusions are limited only by the**
4995 **reported assumptions and limiting conditions and are my personal,**
4996 **impartial, and unbiased professional analyses, opinions, and conclusions.**
4997 — **I have no (or the specified) present or prospective interest in the property**
4998 **that is the subject of this report and no (or the specified) personal interest**
4999 **with respect to the parties involved.**
5000 — **I have no bias with respect to the property that is the subject of this report**
5001 **or to the parties involved with this assignment.**
5002 — **my engagement in this assignment was not contingent upon developing or**
5003 **reporting predetermined results.**
5004 — **my compensation for completing this assignment is not contingent upon**
5005 **the development or reporting of a predetermined value or direction in**
5006 **value that favors the cause of the client, the amount of the value opinion,**
5007 **the attainment of a stipulated result, or the occurrence of a subsequent**
5008 **event directly related to the intended use of this appraisal.**
5009 — **my analyses, opinions, and conclusions were developed, and this report has**
5010 **been prepared, in conformity with the *Uniform Standards of Professional***
5011 ***Appraisal Practice*.**
5012 — **I have (or have not) made a personal inspection of the property that is the**
5013 **subject of this report. (If more than one person signs this certification, the**
5014 **certification must clearly specify which individuals did and which**
5015 **individuals did not make a personal inspection of the appraised property.)**
5016 — **no one provided significant personal property appraisal assistance to the**
5017 **person signing this certification. (If there are exceptions, the name of each**
5018 **individual providing significant personal property appraisal assistance**
5019 **must be stated.)**

5020 Comment: A signed certification is an integral part of the appraisal report. An
5021 appraiser who signs any part of the appraisal report, including a letter of
5022 transmittal, must also sign this certification.

5023 In an assignment that includes only assignment results developed by the personal
5024 property appraiser(s), any appraiser(s) who signs a certification accepts full
5025 responsibility for all elements of the certification, for the assignment results, and
5026 for the contents of the appraisal report. In an assignment that includes real
5027 property, business or intangible asset assignment results not developed by the
5028 personal property appraiser(s), any personal property appraiser(s) who signs a
5029 certification accepts full responsibility for the personal property elements of the
5030 certification, for the personal property assignment results, and for the personal
5031 property contents of the appraisal report.

5032 When a signing appraiser(s) has relied on work done by others who do not sign
5033 the certification, the signing appraiser is responsible for the decision to rely on
5034 their work. The signing appraiser(s) is required to have a reasonable basis for

5035 believing that those individuals performing the work are competent and that their
5036 work is credible.

5037 The names of individuals providing significant personal property appraisal
5038 assistance who do not sign a certification must be stated in the certification. It is
5039 not required that the description of their assistance be contained in the
5040 certification, but disclosure of their assistance is required in accordance with SR
5041 8-2(a), (b), or (c)(vii), as applicable.
5042

5043 **Standards Rule 8-4**

5044 **To the extent that it is both possible and appropriate, an oral personal property appraisal**
5045 **report must address the substantive matters set forth in Standards Rule 8-2(b).**

5046 Comment: See the Record Keeping section of the ETHICS RULE for corresponding
5047 requirements.

5048 **STANDARD 9: BUSINESS APPRAISAL, DEVELOPMENT**

5049 **In developing an appraisal of an interest in a business enterprise or intangible asset, an**
5050 **appraiser must identify the problem to be solved, determine the scope of work necessary to**
5051 **solve the problem, and correctly complete the research and analyses necessary to produce a**
5052 **credible appraisal.**

5053 Comment: STANDARD 9 is directed toward the substantive aspects of
5054 developing a credible appraisal of an interest in a business enterprise or
5055 intangible asset.

5056 **Standards Rule 9-1**

5057 **In developing an appraisal of an interest in a business enterprise or intangible asset, an**
5058 **appraiser must:**

5059 (a) **be aware of, understand, and correctly employ those recognized approaches,**
5060 **methods and procedures that are necessary to produce a credible appraisal;**

5061 Comment: Changes and developments in the economy and in investment theory
5062 have a substantial impact on the business and intangible asset appraisal
5063 profession. Important changes in the financial arena, securities regulation,
5064 financial reporting requirements, and law may result in corresponding changes in
5065 appraisal theory and practice.

5066 (b) **not commit a substantial error of omission or commission that significantly affects**
5067 **an appraisal; and**

5068 Comment: An appraiser must use sufficient care to avoid errors that would
5069 significantly affect his or her opinions and conclusions. Diligence is required to
5070 identify and analyze the factors, conditions, data, and other information that
5071 would have a significant effect on the credibility of the assignment results.

5072 (c) **not render appraisal services in a careless or negligent manner, such as by making a**
5073 **series of errors that, although individually might not significantly affect the results**
5074 **of an appraisal, in the aggregate affect the credibility of those results.**

5075 Comment: Perfection is impossible to attain, and competence does not require
5076 perfection. However, an appraiser must not render appraisal services in a careless
5077 or negligent manner. This Standards Rule requires an appraiser to use due
5078 diligence and due care.

5079 **Standards Rule 9-2**

5080 **In developing an appraisal of an interest in a business enterprise or intangible asset, an**
5081 **appraiser must:**

5082 (a) **identify the client and other intended users;**

5083 (b) **identify the intended use of the appraiser's opinions and conclusions;**

5084 Comment: An appraiser must not allow the intended use of an assignment or a
5085 client's objectives to cause the assignment results to be biased.

- 5086 (c) **identify the standard (type) and definition of value and the premise of value;**
- 5087 (d) **identify the effective date of the appraisal;**
- 5088 (e) **identify the characteristics of the subject property that are relevant to the standard**
5089 **(type) and definition of value and intended use of the appraisal, including:**
- 5090 (i) **the subject business enterprise or intangible asset, if applicable;**
- 5091 (ii) **the interest in the business enterprise, equity, asset, or liability to be valued;**
5092
5093 Comment: The interest to be valued may represent all ownership rights
5094 or a subset of those rights, such as a specific right to use the asset.
- 5095 (iii) **all buy-sell agreements, investment letter stock restrictions, restrictive**
5096 **corporate charter or partnership agreement clauses, and similar features or**
5097 **factors that may have an influence on value;**
- 5098 (iv) **the extent to which the interests contain elements of ownership control; and**
- 5099 Comment: The elements of control in a given situation may be affected
5100 by law, distribution of ownership interests, contractual relationships, and
5101 many other factors.
- 5102 (v) **the extent to which the interests are marketable and/or liquid.**
5103
5104 Comment on (i)-(iv): An appraiser must identify the attributes of the
5105 interest being appraised, including the rights and benefits of ownership.
- 5106 The information used by an appraiser to identify the property
5107 characteristics must be from sources the appraiser reasonably believes
5108 are reliable.
- 5109 (f) **identify any extraordinary assumptions necessary in the assignment;**
- 5110 Comment: An extraordinary assumption may be used in an assignment only if:
- 5111 ■ it is required to properly develop credible opinions and conclusions;
5112 ■ the appraiser has a reasonable basis for the extraordinary assumption;
5113 ■ use of the extraordinary assumption results in a credible analysis; and
5114 ■ the appraiser complies with the disclosure requirements set forth in USPAP
5115 for extraordinary assumptions.
- 5116 (g) **identify any hypothetical conditions necessary in the assignment; and**
- 5117 Comment: A hypothetical condition may be used in an assignment only if:
- 5118 ■ use of the hypothetical condition is clearly required for legal purposes, for
5119 purposes of reasonable analysis, or for purposes of comparison;
5120 ■ use of the hypothetical condition results in a credible analysis; and
5121 ■ the appraiser complies with the disclosure requirements set forth in USPAP
5122 for hypothetical conditions.

5123 (h) determine the scope of work necessary to produce credible assignment results in
5124 accordance with the SCOPE OF WORK RULE;

5125 **Standards Rule 9-3**

5126 In developing an appraisal of an equity interest in a business enterprise with the ability to
5127 cause liquidation, an appraiser must investigate the possibility that the business enterprise
5128 may have a higher value by liquidation of all or part of the enterprise than by continued
5129 operation as is. If liquidation of all or part of the enterprise is the indicated premise of
5130 value, an appraisal of any real property or personal property to be liquidated may be
5131 appropriate.

5132 Comment: This Standards Rule requires the appraiser to recognize that continued
5133 operation of a business is not always the best premise of value because
5134 liquidation of all or part of the enterprise may result in a higher value. However,
5135 this typically applies only when the business equity being appraised is in a
5136 position to cause liquidation. If liquidation of all or part of the enterprise is the
5137 appropriate premise of value, the scope of work may include an appraisal of real
5138 property or tangible personal property. If so, competency in real property
5139 appraisal (STANDARD 1) or tangible personal property appraisal (STANDARD
5140 7) is required.

5141 **Standards Rule 9-4**

5142 In developing an appraisal of an interest in a business enterprise or intangible asset, an
5143 appraiser must collect and analyze all information necessary for credible assignment
5144 results.

5145 (a) An appraiser must develop value opinion(s) and conclusion(s) by use of one or more
5146 approaches that are necessary for credible assignment results.

5147 (b) An appraiser must, when necessary for credible assignment results, analyze the
5148 effect on value, if any, of:

5149 (i) the nature and history of the business enterprise or intangible asset;

5150 (ii) financial and economic conditions affecting the business enterprise or
5151 intangible asset, its industry, and the general economy;

5152 (iii) past results, current operations, and future prospects of the business
5153 enterprise;

5154 (iv) past sales of capital stock or other ownership interests in the business
5155 enterprise or intangible asset being appraised;

5156 (v) sales of capital stock or other ownership interests in similar business
5157 enterprises;

5158 (vi) prices, terms, and conditions affecting past sales of similar ownership
5159 interests in the business enterprise or intangible asset; and
5160

5161 (vii) economic benefit of tangible and intangible assets.
5162

5163 Comment to (i) through (vii): This Standards Rule directs the appraiser
5164 to study the prospective and retrospective aspects of the business
5165 enterprise and to study it in terms of the economic and industry
5166 environment within which it operates.

5167 (c) **An appraiser must, when necessary for credible assignment results, analyze the**
5168 **effect on value, if any, of buy-sell and option agreements, investment letter stock**
5169 **restrictions, restrictive corporate charter or partnership agreement clauses, and**
5170 **similar features or factors that may influence value.**

5171 (d) **An appraiser must, when necessary for credible assignment results, analyze the**
5172 **effect on value, if any, of the extent to which the interests appraised contain**
5173 **elements of ownership control and are marketable and/or liquid.**

5174 Comment: An appraiser must analyze factors such as holding period, interim
5175 benefits, and the difficulty and cost of marketing the subject interest.

5176 Equity interests in a business enterprise are not necessarily worth the pro rata
5177 share of the business enterprise interest value as a whole. Also, the value of the
5178 business enterprise is not necessarily a direct mathematical extension of the value
5179 of the fractional interests. The degree of control, marketability and/or liquidity or
5180 lack thereof depends on a broad variety of facts and circumstances that must be
5181 analyzed when applicable.

5182 **Standards Rule 9-5**

5183 **In developing an appraisal of an interest in a business enterprise or intangible asset, an**
5184 **appraiser must:**

5185 (a) **reconcile the quality and quantity of data available and analyzed within the**
5186 **approaches, methods, and procedures used; and**

5187 (b) **reconcile the applicability or relevance of the approaches, methods and procedures**
5188 **used to arrive at the value conclusion(s).**

5189 Comment: The value conclusion is the result of the appraiser's judgment and not
5190 necessarily the result of a mathematical process.

5191 **STANDARD 10: BUSINESS APPRAISAL, REPORTING**

5192 **In reporting the results of an appraisal of an interest in a business enterprise or intangible**
5193 **asset, an appraiser must communicate each analysis, opinion, and conclusion in a manner**
5194 **that is not misleading.**

5195 Comment: STANDARD 10 addresses the content and level of information required
5196 in a report that communicates the results of an appraisal of an interest in a business
5197 enterprise or intangible asset developed under STANDARD 9.

5198 STANDARD 10 does not dictate the form, format, or style of business or
5199 intangible asset appraisal reports, which are functions of the needs of users and
5200 appraisers. The substantive content of a report determines its compliance.

5201 **Standards Rule 10-1**

5202 **Each written or oral appraisal report for an interest in a business enterprise or intangible**
5203 **asset must:**

5204 (a) **clearly and accurately set forth the appraisal in a manner that will not be**
5205 **misleading;**

5206 (b) **contain sufficient information to enable the intended user(s) to understand the**
5207 **report; and**

5208 (c) **clearly and accurately disclose all assumptions, extraordinary assumptions,**
5209 **hypothetical conditions, and limiting conditions used in the assignment.**

5210 **Standards Rule 10-2**

5211 **Each written appraisal report for an interest in a business enterprise or intangible asset**
5212 **must be prepared in accordance with one of the following options and prominently state**
5213 **which option is used: Appraisal Report or Restricted Use Appraisal Report.**

5214 Comment: When the intended users include parties other than the client, an
5215 Appraisal Report must be provided. When the intended users do not include
5216 parties other than the client, a Restricted Use Appraisal Report may be provided.

5217 The essential difference between these options is in the content and level of
5218 information provided. The intended users and intended use of the assignment
5219 results dictate which reporting option is appropriate and the level of information
5220 necessary in the report.

5221 An appraiser must use care when characterizing the type of report and level of
5222 information communicated upon completion of an assignment. An appraiser
5223 may use any other label in addition to, but not in place of, the label set forth in
5224 this Standard for the type of report provided.

5225 The report content and level of information requirements set forth in this
5226 Standard are minimums for both types of report.

- 5227 A party receiving a copy of an Appraisal Report or Restricted Use Appraisal
5228 Report does not become an intended user of the appraisal unless the appraiser
5229 identifies such party as an intended user as part of the assignment.
- 5230 (a) **The content of an Appraisal Report must be consistent with the intended use of the**
5231 **appraisal and, at a minimum:**
- 5232 (i) **state the identity of the client and any other intended users, by name or**
5233 **type;**
- 5234 Comment: An appraiser must use care when identifying the client to
5235 ensure a clear understanding and to avoid violations of the
5236 Confidentiality section of the ETHICS RULE. In those rare instances
5237 when the client wishes to remain anonymous, an appraiser must still
5238 document the identity of the client in the workfile but may omit the
5239 client's identity in the report.
- 5240 (ii) **state the intended use of the appraisal;**
- 5241 (iii) **summarize information sufficient to identify the business or intangible asset**
5242 **and the interest appraised;**
- 5243 Comment: The identification information must include property
5244 characteristics relevant to the type and definition of value and intended
5245 use of the appraisal.
- 5246 (iv) **state the extent to which the interest appraised contains elements of**
5247 **ownership control, including the basis for that determination;**
- 5248 (v) **state the extent to which the interest appraised lacks elements of**
5249 **marketability and/or liquidity, including the basis for that determination;**
- 5250 (vi) **state the standard (type) and definition of value and the premise of value**
5251 **and cite the source of the definition;**
- 5252 Comment: Stating the definition of value also requires any comments
5253 needed to clearly indicate to the intended users how the definition is
5254 being applied.
- 5255 (vii) **state the effective date of the appraisal and the date of the report;**
- 5256 Comment: The effective date of the appraisal establishes the context for
5257 the value opinion, while the date of the report indicates whether the
5258 perspective of the appraiser on the market or property as of the effective
5259 date of the appraisal was prospective, current, or retrospective.
- 5260 (viii) **summarize the scope of work used to develop the appraisal;**
- 5261 Comment: Because intended users' reliance on an appraisal may be
5262 affected by the scope of work, the report must enable them to be properly
5263 informed and not misled. Sufficient information includes disclosure of
5264 research and analyses performed and might also include disclosure of
5265 research and analyses not performed.

- 5266 When any portion of the work involves significant business and/or
5267 intangible asset appraisal assistance, the appraiser must summarize the
5268 extent of that assistance. The signing appraiser must also state the
5269 name(s) of those providing the significant business and/or intangible
5270 asset appraisal assistance in the certification, in accordance with SR 10-
5271 3.
- 5272 (ix) **summarize the information analyzed, the appraisal procedures followed,**
5273 **and the reasoning that supports the analyses, opinions, and conclusions;**
5274 **exclusion of the market approach, asset-based (cost) approach, or income**
5275 **approach must be explained;**
- 5276 Comment: An Appraisal Report must include sufficient information to
5277 indicate that the appraiser complied with the requirements of
5278 STANDARD 9. The amount of detail required will vary with the
5279 significance of the information to the appraisal.
- 5280 The appraiser must provide sufficient information to enable the client
5281 and intended users to understand the rationale for the opinion and
5282 conclusions, including reconciliation in accordance with Standards Rule
5283 9-5.
- 5284 (x) **clearly and conspicuously:**
- 5285 • **state all extraordinary assumptions and hypothetical conditions; and**
- 5286 • **state that their use might have affected the assignment results; and**
- 5287 (xi) **include a signed certification in accordance with Standards Rule 10-3.**
- 5288 (b) **The content of a Restricted Use Appraisal Report must be consistent with the**
5289 **intended use of the appraisal and, at a minimum:**
- 5290 (i) **state the identity of the client, by name or type; and state a prominent use**
5291 **restriction that limits use of the report to the client and warns that the**
5292 **appraiser's opinions and conclusions set forth in the report may not be**
5293 **understood properly without additional information in the appraiser's**
5294 **workfile;**
- 5295 Comment: An appraiser must use care when identifying the client to
5296 ensure a clear understanding and to avoid violations of the
5297 Confidentiality section of the ETHICS RULE. In those rare instances
5298 when the client wishes to remain anonymous, an appraiser must still
5299 document the identity of the client in the workfile but may omit the
5300 client's identity in the report.
- 5301 The Restricted Use Appraisal Report is for client use only. Before
5302 entering into an agreement, the appraiser should establish with the client
5303 the situations where this type of report is to be used and should ensure
5304 that the client understands the restricted utility of the Restricted Use
5305 Appraisal Report.
- 5306 (ii) **state the intended use of the appraisal;**

- 5307 Comment: The intended use of the appraisal must be consistent with the
5308 limitation on use of the Restricted Use Appraisal Report option in this
5309 Standards Rule (i.e. client use only).
- 5310 **(iii) state information sufficient to identify the business or intangible asset and**
5311 **the interest appraised;**
- 5312 Comment: The identification information must include property
5313 characteristics relevant to the type and definition of value and intended
5314 use of the appraisal.
- 5315 **(iv) state the extent to which the interest appraised contains elements of**
5316 **ownership control, including the basis for that determination;**
5317
- 5318 **(v) state the extent to which the interest appraised lacks elements of**
5319 **marketability and/or liquidity, including the basis for that determination;**
- 5320 **(vi) state the standard (type) of value and the premise of value, and cite the**
5321 **source of its definition;**
- 5322 **(vii) state the effective date of the appraisal and the date of the report;**
- 5323 Comment: The effective date of the appraisal establishes the context for
5324 the value opinion, while the date of the report indicates whether the
5325 perspective of the appraiser on the market or property as of the effective
5326 date of the appraisal was prospective, current, or retrospective.
- 5327 **(viii) state the scope of work used to develop the appraisal;**
- 5328 Comment: Because the client's reliance on an appraisal may be affected
5329 by the scope of work, the report must enable them to be properly
5330 informed and not misled. Sufficient information includes disclosure of
5331 research and analyses performed and might also include disclosure of
5332 research and analyses not performed.
- 5333 When any portion of the work involves significant business and/or
5334 intangible asset appraisal assistance, the appraiser must state the extent
5335 of that assistance. The signing appraiser must also state the name(s) of
5336 those providing the significant business and/or intangible asset appraisal
5337 assistance in the certification, in accordance with SR 10-3.
- 5338 **(ix) state the appraisal procedures followed, state the value opinion(s) and**
5339 **conclusion(s) reached, and reference the workfile; exclusion of the market**
5340 **approach, asset-based (cost) approach, or income approach must be**
5341 **explained;**

5342 Comment: An appraiser must maintain a specific, coherent workfile in
5343 support of a Restricted Use Appraisal Report. The contents of the
5344 workfile must include sufficient information to indicate that the appraiser
5345 complied with the requirements of STANDARD 9 and for the appraiser
5346 to produce an Appraisal Report. The file must be available for inspection
5347 by the client (or the client's representatives, such as those engaged to
5348 complete an appraisal review), such third parties as may be authorized by
5349 due process of law, and a duly authorized professional peer review
5350 committee except when such disclosure to a committee would violate
5351 applicable law or regulation.

5352 (x) clearly and conspicuously:

- 5353 • state all extraordinary assumptions and hypothetical conditions; and
5354 • state that their use might have affected the assignment results; and

5355 (xi) include a signed certification in accordance with Standards Rule 10-3.

5356 **Standards Rule 10-3**

5357 Each written appraisal report for an interest in a business enterprise or intangible asset
5358 must contain a signed certification that is similar in content to the following form:

5359 I certify that, to the best of my knowledge and belief:

- 5360 — the statements of fact contained in this report are true and correct.
5361 — the reported analyses, opinions, and conclusions are limited only by the
5362 reported assumptions and limiting conditions and are my personal,
5363 impartial, and unbiased professional analyses, opinions, and conclusions.
5364 — I have no (or the specified) present or prospective interest in the property
5365 that is the subject of this report, and I have no (or the specified) personal
5366 interest with respect to the parties involved.
5367 — I have no bias with respect to the property that is the subject of this report
5368 or to the parties involved with this assignment.
5369 — my engagement in this assignment was not contingent upon developing or
5370 reporting predetermined results.
5371 — my compensation for completing this assignment is not contingent upon
5372 the development or reporting of a predetermined value or direction in
5373 value that favors the cause of the client, the amount of the value opinion,
5374 the attainment of a stipulated result, or the occurrence of a subsequent
5375 event directly related to the intended use of this appraisal.
5376 — my analyses, opinions, and conclusions were developed, and this report has
5377 been prepared, in conformity with the *Uniform Standards of Professional*
5378 *Appraisal Practice*.
5379 — no one provided significant business and/or intangible asset appraisal
5380 assistance to the person signing this certification. (If there are exceptions,
5381 the name of each individual providing significant business and/or
5382 intangible asset appraisal assistance must be stated.)

5383 Comment: A signed certification is an integral part of the appraisal report. An
5384 appraiser who signs any part of the appraisal report, including a letter of
5385 transmittal, must also sign this certification.

5386 In an assignment that includes only assignment results developed by the business
5387 and/or intangible asset appraiser(s), any appraiser(s) who signs a certification
5388 accepts full responsibility for all elements of the certification, for the assignment
5389 results, and for the contents of the appraisal report. In an assignment that
5390 includes real property or personal property assignment results not developed by
5391 the business and/or intangible asset appraiser(s), any business and/or intangible
5392 asset appraiser(s) who signs a certification accepts full responsibility for the
5393 business and/or intangible asset elements of the certification, for the business
5394 and/or intangible asset assignment results, and for the business and/or intangible
5395 asset contents of the appraisal report.

5396 When a signing appraiser(s) has relied on work done by others who do not sign
5397 the certification, the signing appraiser is responsible for the decision to rely on
5398 their work. The signing appraiser(s) is required to have a reasonable basis for
5399 believing that those individuals performing the work are competent.

5400 The names of individuals providing significant business and/or intangible asset
5401 appraisal assistance who do not sign a certification must be stated in the
5402 certification. It is not required that the description of their assistance be contained
5403 in the certification but disclosure of their assistance is required in accordance
5404 with SR 10-2(a) or (b)(vii), as applicable.
5405

5406 **Standards Rule 10-4 Conditional Requirement**

5407 **To the extent that it is both possible and appropriate, an oral appraisal report for an**
5408 **interest in a business enterprise or intangible asset must address the substantive matters set**
5409 **forth in Standards Rule 10-2(a).**

5410 Comment: See the Record Keeping section of the ETHICS RULE for
5411 corresponding requirements.

5412 **STATEMENT ON APPRAISAL STANDARDS NO. 9 (SMT- 9)**

5413 **SUBJECT: Identification of Intended Use and Intended Users**

5414 **APPLICATION: Real Property, Personal Property, Intangible Property**

5415 **THE ISSUE:**

5416 An appraiser must identify and consider the intended use and intended users of the appraiser's
5417 reported opinions and conclusions in order to identify the problem to be solved and to understand
5418 his or her development and reporting responsibilities in an appraisal, appraisal review, or
5419 appraisal consulting assignment. An appraiser must state the intended use and intended users of
5420 the opinions and conclusions in a report.

5421 What kind of information must an appraiser identify and consider regarding the intended use and
5422 intended users in the course of accepting and completing an assignment, and how much of that
5423 information must an appraiser include in the report?

5424 **THE STATEMENT:**

5425 **Relevant USPAP References**

5426 The term "Client" is defined in the DEFINITIONS section of USPAP as

5427 *the party or parties who engage an appraiser (by employment or contract) in a*
5428 *specific assignment.*

5429 The term "Intended Use" is defined as

5430 *the use or uses of an appraiser's reported appraisal, appraisal review, or appraisal*
5431 *consulting assignment opinions and conclusions, as identified by the appraiser based on*
5432 *communication with the client at the time of the assignment.*

5433 The term "Intended User" is defined as

5434 *the client and any other party as identified, by name or type, as users of the*
5435 *appraisal, appraisal review, or appraisal consulting report by the appraiser on*
5436 *the basis of communication with the client at the time of the assignment.*

5437 **General**

5438 The SCOPE OF WORK RULE requires an appraiser to identify the intended use as part of
5439 problem identification. Identifying the intended use is required to determine the scope of work
5440 necessary to develop credible assignment results. The credibility of assignment results is always
5441 measured in the context of the intended use of the opinions and conclusions.

5442 STANDARDS 1, 3, 4, 6, 7, and 9 require an appraiser to identify the intended use in the course of
5443 developing his or her opinions and conclusions in the assignment. In the context of a real property
5444 appraisal, Standards Rule 1-2(b) states, "*In developing a real property appraisal, an appraiser*
5445 *must identify the intended use of the appraiser's opinions and conclusions...*" Similar language
5446 appears in other USPAP development Standards.

5447 STANDARDS 2, 3, 5, 6, 8, and 10 require an appraiser to state the intended use in the report. In
5448 the context of a written real property appraisal report, Standards Rule 2-2(a) (for example) states
5449 “*The content of a Self-Contained Appraisal Report must be consistent with the intended use of the*
5450 *appraisal...*” Similar language appears in other USPAP reporting Standards.

5451 An appraiser identifies the intended use by communicating with the client before accepting an
5452 appraisal, appraisal review, or appraisal consulting assignment. The intended use may encompass
5453 requirements of intended users other than the client. An appraiser cannot reasonably identify the
5454 intended use without having identified the client and communicating with the client or the client’s
5455 agent.

5456 Although an appraiser must identify and consider the intended use of the appraiser’s opinions and
5457 conclusions, an appraiser must not allow the objectives of the client or other intended users of the
5458 report to affect the appraiser’s independence and objectivity. An appraiser must not allow the
5459 objectives of a client or other intended users to cause the analysis or report to be biased.

5460 **Identification of the Client and Other Intended Users in an Assignment**

5461 In order to properly define the problem under study and to understand his or her responsibilities
5462 in an assignment, an appraiser must identify the client and other intended users. This is
5463 accomplished by communication with the client prior to accepting the assignment.

5464 An appraiser should use care when identifying the client to ensure a clear understanding and to
5465 avoid violations of the Confidentiality section of the ETHICS RULE. In this context, the client
5466 may be identified as a person or entity, or as an agent of an intended user. In those rare instances
5467 where the client wishes to remain anonymous, the appraiser must still document the identity of
5468 the client in the workfile but may omit the client’s identity in the appraisal, appraisal review, or
5469 appraisal consulting report.

5470 Neither the client nor the appraiser is obligated to identify an intended user by name. If
5471 identification by name is not appropriate or practical, an appraiser’s client and the appraiser may
5472 identify an intended user by type.

5473 An appraiser’s obligations to the client are established in the course of considering and accepting
5474 an assignment. Once an assignment is accepted, an appraiser is obligated to complete the
5475 assignment as agreed and in compliance with USPAP. However, if an appraiser becomes aware
5476 of a change in the intended use of the report, the appraiser must consider whether the extent of
5477 the development process and type of report initially identified are still appropriate. If they are not,
5478 the appraiser must communicate with the client to establish an appropriate basis upon which to
5479 proceed.

5480 If the appraiser is contacted regarding an assignment or report by a party other than the
5481 appraiser’s client, before responding the appraiser must review his or her obligations to that
5482 client. An appraiser may need to review the Confidentiality section of the ETHICS RULE and
5483 Advisory Opinions 25, 26, and 27 for guidance.

5484 An appraiser’s obligations to other intended users may impose additional development and
5485 reporting requirements in the assignment. It is essential that an appraiser establish with the client
5486 a clear and mutual understanding of the needs of all intended users prior to accepting an
5487 assignment. An appraiser’s obligation to intended users other than the client is limited to
5488 addressing their requirements as identified by the appraiser at the time the appraiser accepts the
5489 assignment.

5490 A party receiving a report copy from the client does not, as a consequence, become a party to the
5491 appraiser-client relationship.

5492 Parties who receive a copy of an appraisal, appraisal review, or appraisal consulting report as a
5493 consequence of disclosure requirements applicable to an appraiser's client do not become
5494 intended users of the report unless they were specifically identified by the appraiser at the time of
5495 the assignment.

5496 **Disclosure of Client and Other Intended User(s) in an Appraisal, Appraisal Review, or**
5497 **Appraisal Consulting Report**

5498 Except when specifically requested not to do so as part of the agreement with the client, an
5499 appraiser must disclose the identity of the client and any other intended users in an appraisal,
5500 appraisal review, or appraisal consulting report. The purpose of this reporting requirement is to
5501 (1) ensure that the client and any other intended users can recognize their relationship to the
5502 assignment and report, and (2) ensure that unintended users will not be misled by notifying them
5503 that they are neither the client nor an intended user. For example, a statement similar to the
5504 following may be appropriate:

5505 This report is intended for use only by (identify the client) and (identify any other
5506 intended users by name or type). Use of this report by others is not intended by
5507 the appraiser.

5508 If the client's identity is omitted from an appraisal report, the appraiser must (1) identify the
5509 client and any other intended users in the workfile, and (2) provide a notice in the appraisal report
5510 that the identity of the client has been omitted in accordance with the client's request and that the
5511 report is intended for use only by the client and any other intended users identified by the client at
5512 the time the assignment was accepted.

5513 **Identification of the Intended Use in an Appraisal, Appraisal Review, or Appraisal**
5514 **Consulting Assignment**

5515 Identification of the intended use is one of the assignment elements necessary to properly
5516 identify the appraisal, appraisal review, or appraisal consulting problem. Identification of the
5517 intended use helps the appraiser and the client make two important decisions about the
5518 assignment:

- 5519 • the appropriate scope of work for the appraisal, appraisal review, or appraisal
5520 consulting development process; and
5521 • the level of detail to provide in the appraisal, appraisal review, or appraisal
5522 consulting report.

5523 **Disclosure of the Intended Use in a Report**

5524 An appraiser can avoid misleading parties in possession of an appraisal, appraisal review, or
5525 appraisal consulting report by clearly identifying the intended use in the report and stating that
5526 other uses are not intended. For example, a statement similar to the following may be appropriate:

5527 This report is intended only for use in (describe the use). This report is not intended
5528 for any other use.

5529 The intended use description provided in the statement must be specific to the assignment.

5530 **CONCLUSIONS:**

- 5531 • An appraiser must identify the client and other intended users as part of the
5532 process of identifying the client's intended use of an appraisal, appraisal review,
5533 or appraisal consulting report, by communication with the client prior to
5534 accepting the assignment.
- 5535 • Identification of the intended use and intended users are necessary steps in
5536 determining the appropriate scope of work.
- 5537 • Whether or not assignment results are credible is measured in the context of the
5538 intended use of the opinions and conclusions.
- 5539 • An appraiser should use care when identifying the client to ensure a clear
5540 understanding and to avoid violations of the Confidentiality section of the
5541 ETHICS RULE.
- 5542 • The appraiser's obligations to the client are established in the course of
5543 considering and accepting an assignment.
- 5544 • The appraiser's obligation to intended users other than the client is limited to
5545 addressing their requirements as identified by the appraiser at the time the
5546 appraiser accepts the assignment.
- 5547 • Identification of the intended use and intended users of the report is one of the
5548 essential steps in order to identify the problem to be solved.
- 5549 • An appraiser identifies the intended use and any intended users of an appraisal,
5550 appraisal review, or appraisal consulting report by communicating with the client
5551 before accepting an assignment.
- 5552 • Appraisers can avoid misleading parties in possession of a report by clearly
5553 identifying the intended use and any intended users in the report and stating that
5554 other uses and/or users are not intended by the appraiser.
- 5555 • Except when specifically requested not to do so as part of the agreement with the
5556 client, an appraiser must disclose the identity of the client and any other intended
5557 users of an appraisal report in the report.
- 5558 • If the client's identity is omitted from an appraisal report, the appraiser must (1)
5559 document the identity of the client and the identities of any other intended users
5560 in the workfile, and (2) provide a notice in the appraisal report that the identity of
5561 the client has been omitted in accordance with the client's request and that the
5562 report is intended for use only by the client and any other intended users.

5563
5564 Adopted August 27, 1996
5565 Last Revised XXXXXXX

5566 **STATEMENT ON APPRAISAL STANDARDS NO. 10 (SMT-10)**

5567 **SUBJECT: Assignments for Use by a Federally Insured Depository Institution in a**
5568 **Federally Related Transaction**

5569 **APPLICATION: Real Property**

5570 **THE ISSUE:**

5571 Federal financial institution regulatory agencies (agencies) have experience that indicate some
5572 appraisers are not following *Uniform Standards of Professional Appraisal Practice* (USPAP)
5573 and, when applicable, the agencies' appraisal regulations⁸ and guidelines⁹ issued by the Federal
5574 Deposit Insurance Corporation (FDIC), Federal Reserve Board (FRB), Office of the Comptroller
5575 of the Currency (OCC), and Office of Thrift Supervision (OTS). This is particularly true in
5576 appraisals of commercial real estate and residential tract development projects. The agencies'
5577 concerns involve three general appraisal areas: USPAP compliance, appraiser independence and
5578 appraisal review.

5579 Federally insured depository institutions recognize that the agencies' appraisal regulations and
5580 guidelines include the requirement that appraisals comply with USPAP in a federally related
5581 transaction.

5582 Most appraisers recognize that the agencies' appraisal regulations and guidelines supplement the
5583 USPAP requirements when an intended user of the assignment results is a federally insured
5584 depository institution for a federally related transaction. However, some appraisers are uncertain
5585 as to:

- 5586 • What does USPAP require when the intended user of assignment results is a
5587 federally insured depository institution and the intended use is in a federally
5588 related transaction, and
5589 • how do the agencies' appraisal regulations and guidelines, which include
5590 supplemental standards, affect the appraiser's scope of work and report content
5591 requirements?

5592 **THE STATEMENT:**

5593 This Statement provides appraisers, users of appraisal services, and enforcement bodies with
5594 clarification, interpretation, explanation, and elaboration to reaffirm an appraiser's USPAP
5595 obligations when performing an assignment for use by a federally insured depository institution
5596 in a federally related transaction.

5597 The requirements in this Statement apply and are binding when an appraiser is developing an
5598 opinion of market value of real property for intended use by a federally insured depository
5599 institution in a federally related transaction.

⁸ 12 CFR 323 (FDIC); 12 CFR 225, subpart G (FRB); 12 CFR 34.44, subpart C (OCC); and 12 CFR 564 (OTS)

⁹ Interagency Appraisal and Evaluation Guidelines, October 27, 1994

5600 **ASB Response to the Issue**

5601 Each ASB response on how USPAP applies to a specific concern appears in *italics* followed by
5602 references to USPAP and guidance material in the Advisory Opinions section.

5603 When the agencies' appraisal regulations and guidelines supplement USPAP requirements, this
5604 Statement notes the agencies' appraisal regulations or guidelines as SUPPLEMENTAL
5605 STANDARDS. The ASB's statements about compliance with those requirements are in the
5606 context of the appraiser's obligation to comply with the ETHICS RULE or COMPETENCY
5607 RULE, as applicable.

5608 Given the scope of this Statement, a Table of Contents is provided on the following page.

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- 5633 **market value**
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- 5635 **discounts**

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5637 **report appropriate deductions and discounts for a tract development**
5638 **appraisal**
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5640 **property being appraised; and failing to identify and analyze all prior sales**
5641 **of the subject property (within required time frames), which may facilitate**
5642 **“land flip” deals**
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5645 **support**
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5647 **review report**
- 5648 **G. CONCLUSIONS**

5649 **A. GENERAL USPAP COMPLIANCE QUESTIONS:**

5650 Appraisers who provide valuation services to a federally insured depository institution for
5651 use in a federally related transaction may be uncertain as to:

- 5652 • when USPAP applies;
- 5653 • whether the COMPETENCY RULE requirements extend to a client's
- 5654 appraisal regulations and guidelines, which supplement USPAP;
- 5655 • whether the JURISDICTIONAL EXCEPTION RULE applies in such
- 5656 assignments; and
- 5657 • whether compliance with the client's appraisal regulations and guidelines
- 5658 that apply under the SUPPLEMENTAL STANDARDS RULE is a USPAP
- 5659 compliance requirement.

5660

5661 **1. Applicability of USPAP**

5662 *Compliance with USPAP is required when either the service or the appraiser is*
5663 *obligated by law or regulation, or by agreement with the client or intended users,*
5664 *to comply. The agencies' appraisal regulations and guidelines require*
5665 *appraisers' compliance with USPAP in an assignment where the intended user of*
5666 *the assignment results is a federally insured depository institution and the*
5667 *intended use is in a federally related transaction. Therefore, appraisers are*
5668 *bound to comply with USPAP in performing those assignments.*

5669 USPAP Reference: **ETHICS RULE Comment**
5670 **Conduct section**

5671 **2. Competency is Required**

5672 *Competency to perform an assignment includes the ability to complete the*
5673 *assignment in compliance with USPAP and any supplemental standards that the*
5674 *appraiser agrees are applicable in the assignment at the time the assignment is*
5675 *accepted by the appraiser.*

5676 *An appraiser violates the ETHICS RULE if he or she knowingly misrepresents*
5677 *his or her competency to complete an assignment in compliance with USPAP and*
5678 *the agencies' appraisal regulations and guidelines (supplemental standards).*

5679 *Failure to complete the assignment competently, in accordance with the*
5680 *applicable USPAP requirements and supplemental standards the appraiser*
5681 *agreed to in accepting the assignment, violates the COMPETENCY RULE.*

5682 USPAP References: **ETHICS RULE**
5683 **COMPETENCY RULE**
5684 **SUPPLEMENTAL STANDARDS RULE**

5685 **3. --Section Deleted--**

5686 **4. Jurisdictional Exception**

5687 *None of the requirements in the agencies' appraisal regulations and guidelines*
5688 *cause a need to apply the JURISDICTIONAL EXCEPTION RULE.*

5689 USPAP Reference: JURISDICTIONAL EXCEPTION RULE

5690 **5. Supplemental Standards**

5691 *The agencies' appraisal regulations and guidelines contain requirements that*
5692 *supplement USPAP. These supplemental standards, which affect an appraiser's*
5693 *obligations in several areas, include:*

5694 a) *Appraiser Independence: The agencies' appraisal regulations require*
5695 *that an appraiser have no direct or indirect interest, financial or*
5696 *otherwise, in the property or the transaction.*

5697 b) *Scope of Work: The agencies' appraisal regulations require that*
5698 *appraisals include sufficient information and analysis to support the*
5699 *institution's decision to engage in the transaction.*

5700 c) *Analysis: The agencies' guidelines require an appraisal to include the*
5701 *current market value of the property in its actual physical condition and*
5702 *subject to the zoning in effect as of the date of the appraisal (a current*
5703 *date of value).*

5704 d) *Reporting: The agencies' appraisal regulations require that appraisals*
5705 *be written.*

5706 *An appraiser accepting an assignment to be performed under the agencies'*
5707 *appraisal regulations and guidelines is obligated to complete that assignment in*
5708 *a manner that complies with the above and any other supplemental standards*
5709 *included in the agencies' appraisal regulations and guidelines.*

5710 USPAP Reference: SUPPLEMENTAL STANDARDS RULE

5711 **Specific Concerns Involving Noncompliance, Inconsistencies, and Omissions in**
5712 **Assignments Completed for Use by a Federally Insured Depository Institution in a**
5713 **Federally Related Transaction Are As Follows:**

5714 Bankers and examiners report that some appraisers are not following USPAP and the
5715 agencies' appraisal regulations and guidelines. Each area of noncompliance, inconsistency, or
5716 omission is noted in **bold and underlined text**, followed by the ASB's response in *italicized*
5717 *text* as to the appraiser's obligations to ensure compliance with USPAP. Where necessary,
5718 reference is also provided to the agencies' appraisal regulations and guidelines following the
5719 subheading of SUPPLEMENTAL STANDARDS RULE.

5720 **B. APPRAISER INDEPENDENCE ISSUES:**

5721 **1. Failing to follow existing appraisal standards to disclose present or**
5722 **prospective relationships with borrowers**

5723 *Accepting an assignment involving parties or property in which the appraiser*
5724 *has a current or prospective interest that causes bias violates the ETHICS RULE.*

5725 *Failure to disclose in the appraiser's certification any present or prospective*
5726 *relationships with a party involved with the assignment or the subject of the*
5727 *assignment violates Standards Rule 2-3.*

5728 SUPPLEMENTAL STANDARDS RULE: *The agencies' appraisal regulations*
5729 *do not permit an appraiser to accept an assignment involving a property or*
5730 *transaction in which the appraiser has a direct or indirect interest, financial or*
5731 *otherwise. If an appraiser who has such an interest violates the agencies'*
5732 *appraisal regulations by accepting such an assignment, he or she violates the*
5733 *SUPPLEMENTAL STANDARDS RULE.*

5734 USPAP References: ETHICS RULE
5735 COMPETENCY RULE
5736 DEFINITIONS section, *Bias*
5737 Standards Rule 2-3
5738 SUPPLEMENTAL STANDARDS RULE

5739 2. **Altering the title page, transmittal letter, or the identity of the intended user**
5740 **of an appraisal report to mislead the reader to believe the report was**
5741 **originally prepared for the lender and not the borrower**

5742 *Altering a report in a manner that conceals the original client or intended users*
5743 *in the assignment is misleading and violates the Conduct section of the ETHICS*
5744 *RULE. For example, an appraiser performs an appraisal and delivers the report*
5745 *to his client. The appraiser's client then asks the appraiser to readdress this*
5746 *appraisal to a specific federally insured depository institution. The client knows*
5747 *that the appraiser is on that institution's approved appraiser list. The appraiser*
5748 *knows, when the original assignment is offered, that the client intends to request*
5749 *a loan from that institution after the original appraisal is completed.*
5750 *Accommodating the client's request to readdress the appraisal report in this*
5751 *example violates the ETHICS RULE. Indeed, even if the appraiser did not know*
5752 *the client's original intent, altering such a report in a manner to conceal the*
5753 *original client or intended users violates the ETHICS RULE.*

5754 USPAP Reference: ETHICS RULE
5755 USPAP Guidance: AO-26 Readdressing (Transferring) a Report to Another
5756 Party

5757 C. **SCOPE OF WORK ISSUES—MISUSING THE SCOPE OF WORK RULE:**

5758 1. **Insufficiently supporting an opinion of value that results in a conclusion that**
5759 **is not credible (by inappropriate use of the SCOPE OF WORK RULE)**

5760 *The appraiser must determine that the scope of work includes the research and*
5761 *analyses that are necessary to develop credible assignment results. The*
5762 *appraiser must be prepared to demonstrate that the scope of work is sufficient to*
5763 *produce credible assignment results.*

5764 *Failure to determine and complete the scope of work necessary to develop*
5765 *credible assignment results violates the SCOPE OF WORK RULE and Standards*
5766 *Rule 1-2(h).*

- 5767 USPAP References: SCOPE OF WORK RULE
 5768 Standards Rule 1-2(h)
 5769
2. --Section Deleted--
- 5770 3. **Omitting an approach to value that typical practice and peers would require**
- 5771 *Omitting an approach to value that would be completed by an appraiser's peers*
 5772 *in a similar type of assignment and would also be an expectation of parties who*
 5773 *are regularly intended users for a similar type of assignment, violates the*
 5774 *SCOPE OF WORK RULE. For example, using other approaches while failing to*
 5775 *develop an indication of value by a sales comparison approach [SR 1-4(a)] when*
 5776 *there are sufficient sales for analysis and the market response to the property is*
 5777 *best indicated by sales analysis violates the SCOPE OF WORK RULE.*
- 5778 *Failure to explain the reason for excluding the sales comparison approach, cost*
 5779 *approach, or income approach violates the applicable reporting rules [SR 2-2(a)*
 5780 *or (b)(vii)].*
- 5781 USPAP References: SCOPE OF WORK RULE
 5782 Standards Rules 1-4(a)
 5783 Standards Rules 2-2(a) and (b)(vii)
 5784
 5785
- 5786 4. --Section Deleted--
- 5787 D. USING HYPOTHETICAL CONDITIONS:
- 5788 1. **Failing to disclose known facts concerning the physical, legal, or economic**
 5789 **characteristics of the property being appraised when using a hypothetical**
 5790 **condition**
- 5791 *When a property is appraised for market value as of a current date based on a*
 5792 *hypothetical condition, an appraiser must ensure:*
- 5793 • That use of a hypothetical condition [SR 1-2(g)], such as when the
 5794 subject property involves proposed improvements as of a current
 5795 date, is appropriate and produces credible assignment results.
 - 5796 • The appraisal report states the property use as of the date of value
 5797 and the use reflected in the appraisal under the hypothetical
 5798 condition [SR 2-2(a) or (b)(ix)]. For example, the subject property
 5799 that exists as of the date of value, which is a current date, is raw land
 5800 but is appraised under a hypothetical condition as an improved
 5801 property. The property use information included in response to
 5802 Standards Rule 2-2(a) or (b)(ix) must include the property
 5803 characteristics relevant to both the existing and proposed uses.
- 5804 *When the client requests a prospective value for the property under an*
 5805 *extraordinary assumption [SR 1-2(f)] that the proposed improvement project or*
 5806 *rehabilitation is completed as of a future date, an appraiser must ensure*

5807 *compliance with Statement on Appraisal Standards No. 4 (SMT-4), “Prospective*
5808 *Value Opinions.” Additional guidance is contained in Advisory Opinion AO-17,*
5809 *“Appraisal of Real Property with Proposed Improvements.”*

5810 USPAP References: Standards Rules 1-2(f) and (g)
5811 Standards Rules 2-2(a) and (b)(ix)
5812 Statement on Appraisal Standards No. 4 (SMT-
5813 4), *Prospective Value Opinions*

5814 USPAP Guidance: Advisory Opinion AO-17, *Appraisal of Real*
5815 *Property with Proposed Improvements*

5816 **2. Failing to indicate the “as is” value of the property as of the date of the**
5817 **report and how the “as is” value differs from the value conclusion under a**
5818 **hypothetical condition**

5819 *When a property is appraised for market value as of a current date based on a*
5820 *hypothetical condition, an appraiser must ensure that the appraisal report*
5821 *contains appropriate disclosure of the hypothetical condition, including that its*
5822 *use might have affected the assignment results [SR 2-1(c) and SR 2-2(a), (b)(x).]*

5823 *SUPPLEMENTAL STANDARDS RULE: The agencies’ appraisal regulations*
5824 *require sufficient information and analysis to support the regulated institution’s*
5825 *decision to engage in the transaction. The agencies’ guidelines state that for*
5826 *federally related transactions, “an appraisal is to include the current market*
5827 *value of the property in its actual physical condition and subject to the zoning in*
5828 *effect as of the date of the appraisal” (current date of value). If, by failing to*
5829 *provide this opinion, when possible, an appraiser violates the agencies’*
5830 *appraisal regulation and guidelines, the appraiser violates the*
5831 *SUPPLEMENTAL STANDARDS RULE.*

5832 *If it is not possible to provide an opinion as to the current market value of the*
5833 *property in its actual physical condition and subject to the zoning in effect as of*
5834 *the date of the appraisal, the appraiser must clearly explain the circumstances*
5835 *and reasons why such an opinion could not be developed and reported.*

5836 USPAP References: ETHICS RULE
5837 COMPETENCY RULE
5838 Standards Rule 2-1(c)
5839 Standards Rules 2-2(a) and (b)(x)
5840 SUPPLEMENTAL STANDARDS RULE

5841 **E. ANALYSIS ISSUES:**

5842 **1. Failing to adequately address real estate market risk (trends)**

5843 *An appraiser must use sufficient care to avoid errors that would significantly*
5844 *affect his or her opinions and conclusions. Diligence is required to identify and*
5845 *analyze the factors, conditions, data, and other information that would have a*
5846 *significant effect on the credibility of assignment results [SR 1-1(b), Comment].*

5847 *An appraiser must have sound reasons in support of the scope of work decision*
5848 *and be prepared to support the decision to exclude any investigation,*
5849 *information, method or technique that would appear relevant to the client,*
5850 *another intended user, or the appraiser's peers.. Failing to include in the scope*
5851 *of work sufficient market trend research and analyses to develop credible results*
5852 *violates Standards Rules 1-1(a) and (b) and Standards Rule 1-2(h).*

5853 *SUPPLEMENTAL STANDARDS RULE: The agencies' appraisal regulations*
5854 *require sufficient information and analysis to support the regulated institution's*
5855 *decision to engage in the transaction. Market area trend analysis information is*
5856 *essential to the intended user's understanding of market risk and how market*
5857 *trend was addressed in developing the value opinion in a market value appraisal.*

5858 *Analysis of market area trend information is a necessary part of the scope of*
5859 *work to comply with the requirements stated in Standards Rules 1-2(e) and 1-4.*
5860 *An appraiser must be prepared to demonstrate that the scope of work is sufficient*
5861 *to produce credible assignment results in view of the agencies' appraisal*
5862 *regulations that require sufficient information and analysis to support the*
5863 *regulated institution's decision to engage in the transaction that prompted the*
5864 *need for the appraisal.*

5865 *Standards Rule 1-3(a) includes the requirement to identify and analyze, among*
5866 *other things, economic demand and market area trends. The Comment to*
5867 *Standards Rule 1-3(a) states, "An appraiser must avoid making an unsupported*
5868 *assumption or premise about market area trends, ..." If an appraiser violates the*
5869 *agencies' appraisal regulations by failure to conduct sufficient research and*
5870 *analysis of market area trend data or by failure to include the result of such*
5871 *analysis in the appraisal report, the appraiser thus violates the*
5872 *SUPPLEMENTAL STANDARDS RULE.*

5873 *Standards Rule 1-4(c)(iv) states, "When an income approach is applicable, an*
5874 *appraiser must: ... base projections of future rent and expenses on reasonably*
5875 *clear and appropriate evidence." The Comment to Standards Rule 1-4(c)(iv)*
5876 *states, "An appraiser must, in developing income and expense statements and*
5877 *cash flow projections, weigh historical information and trends, current demand*
5878 *and supply factors affecting such trends, and anticipated events such as*
5879 *competition from developments under construction" If an appraiser violates the*
5880 *agencies' appraisal regulations by failure to complete sufficient research and*
5881 *analysis of market area trends affecting rental and expense levels and*
5882 *relationships in an appraisal of income-producing commercial real estate in*
5883 *which an income approach was completed, or by failure to include the result of*
5884 *such analysis in the appraisal report, the appraiser thus violates the*
5885 *SUPPLEMENTAL STANDARDS RULE.*

5886 USPAP References: Standards Rule 1-1(b)
5887 Standards Rule 1-2(h)
5888 Standards Rules 1-3(a) and (b)
5889 Standards Rules 1-4(c)(iv)
5890 Standards Rule 2-2(a) or (b)(viii)
5891 SUPPLEMENTAL STANDARDS RULE

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2. **Using comparable sales transactions that are not arm's length**

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The definition of market value applicable in an assignment establishes the conditions for an arm's length sale transaction under that definition. When developing an opinion of market value, using sales that are not arm's length is not acceptable appraisal practice if an adequate number of relevant arm's length sales are available for analysis. If market conditions result in the necessity to use sales that are not arm's length in an appraisal, the sale analysis must identify and apply appropriate adjustments to result in a value indication consistent with the terms and conditions of sale set forth in the market value definition applicable in the assignment.

5902

USPAP References: Standards Rule 1-1(b)

5903

Standards Rule 1-4(a)

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3. **Reporting the sum of retail values of units for a tract development project (5 units or more in a single development) as representing the market value of the whole property**

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The subject property in an appraisal of a subdivision or a tract development is the project itself (e.g., land with entitlements to develop improved properties, such as lots or finished lots with structures), not the individual units of finished product.

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The sum of "retail values" for the lots or homes produced in tracts is not the market value of the project in an appraisal developed for use in project development financing. It is inappropriate to value a subdivision or tract development project by adding together the values for the individual units of finished product. It is misleading to report the sum of the values for individual units of production as the market value of the subdivision or tract development project. If the market value for individual units of production (e.g., proposed residences) is requested by the client, such as for use in take-out loan commitments, those value opinions must be developed in the context of that intended use. The individual values must not be summed and characterized in an appraisal report as the market value of the project.

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USPAP References: Standards Rule 1-1(a)

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Standards Rules 1-2(b) and (e)

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Standards Rules 1-4(e)

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Standards Rule 2-2(a) or (b)(iii)

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USPAP Guidance: Advisory Opinion AO-23, *Identifying the Relevant Characteristics of the Subject Property of a Real Property Appraisal Assignment*

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4. **Using non-market-based time constraints when applying deductions and discounts in the valuation of proposed construction or renovation, partially leased buildings, and non-market lease terms.**

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The use of non-market-based time constraints when analyzing a property produces a result that is not market value. In the event a client requests use of

5934 *non-market based factors, or no discounting for a defined time period, the result*
5935 *is more in character with an investment value or some other value under its*
5936 *specified marketing, loan liquidation or collection criteria, or accounting*
5937 *applications. When an assignment includes client-specified marketing, sale, or*
5938 *acquisition conditions that are distinct from typical market conditions, it is*
5939 *misleading to label the result a market value opinion.*

5940 USPAP References: Standards Rules 1-2(b) and (c)
5941 Standard Rule 1-3(a)
5942 Standards Rules 1-4(e) and (g)
5943 Statement on Appraisal Standards No. 2 (SMT-2),
5944 *Discounted Cash Flow Analysis*

5945 **5. Providing an undiscounted value conclusion to an institution when the**
5946 **institution is financing the development of and not the end purchase of the**
5947 **individual unit(s); and failing to report appropriate deductions and**
5948 **discounts for a tract development appraisal**

5949 *When the intended use of assignment results is for tract development project*
5950 *financing and a market value opinion is developed by use of a discounted cash*
5951 *flow analysis (DCF), the DCF analyses must include appropriate market-based*
5952 *deductions and discounts to reflect market value (present worth).*

5953 *When the subject of the appraisal is a proposed project and an analysis method*
5954 *is a DCF, or other methods that involve discounting, the time frame over which*
5955 *discounting occurs must be consistent with the project's overall production and*
5956 *completed unit absorption period. The factors applied should be market-derived*
5957 *and must reflect the market's anticipated response to the difference between the*
5958 *date of value and receipt of the cash flows, project risk, and market trends, not*
5959 *only the time-value of money.*

5960 USPAP References: Standards Rules 1-2(b) and (e)
5961 Standards Rules 1-4(e)
5962 Statement on Appraisal Standards No. 2 (SMT-2),
5963 *Discounted Cash Flow Analysis*

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5965 USPAP Guidance: Advisory Opinion AO-23, *Identifying the Relevant*
5966 *Characteristics of the Subject Property of a Real*
5967 *Property Appraisal Assignment.*

5968 **6. Failing to analyze a current option, or listing of the property being**
5969 **appraised; and failing to identify and analyze all prior sales of the subject**
5970 **property (within required time frames), which may facilitate "land flip"**
5971 **deals**

5972 *Given the intended use of the assignment results by a federally insured*
5973 *depository institution, an appraiser must take all reasonable steps to gather and*
5974 *verify relevant information concerning the subject property's current market*
5975 *activity and marketing history.*

5976 *An appraiser can demonstrate due diligence efforts, in compliance with*
5977 *Standards Rule 1-1(b), to obtain relevant information regarding all agreements*
5978 *of sale, or options, or current listing of the property being appraised [SR 1-5(a)]*
5979 *by documenting in the appraisal report the appraiser's direct inquiry to the*
5980 *federally insured depository institution, or its agent, that requested the appraisal*
5981 *service. Failure to make such due diligence effort, or failure to state adequate*
5982 *supporting reasons in response to Standards Rule 2-2(a) or (b)(viii) why such*
5983 *information is not obtainable or is not relevant, violates Standards Rule 1-1(b).*

5984 *The time frames cited in Standards Rule 1-5(b) are minimums. If market activity*
5985 *concerning the subject property from prior periods is known and relevant, it*
5986 *should also be analyzed and addressed. The requirement is for an analysis of all*
5987 *sales that occurred in the minimum time frame, not just the most recent sale. For*
5988 *example, if a property sold twice within the minimum time frame, both sales must*
5989 *be analyzed. The summary of the sales' analyses reported in compliance with*
5990 *Standards Rule 2-2(a) or (b)(viii) must include data sufficient to identify each*
5991 *relevant prior sale of the subject, including (when available) sale date, amount,*
5992 *type and terms of financing if any, and names of the seller and buyer. If relevant*
5993 *and necessary to a proper understanding of the sale, the conditions of sale and*
5994 *the property condition at sale must also be reported.*

5995 USPAP References: Standards Rule 1-1(b)
5996 Standards Rules 1-5(a) and (b)
5997 Standards Rules 2-2(a) and (b)(viii), Comment

5998 **F. APPRAISAL REVIEW ISSUES:**

5999 **1. Changing the market value opinion in the appraisal report without**
6000 **adequately supporting their opinion, thus producing a conclusion that is not**
6001 **credible**

6002 *An appraiser functioning as reviewer may state his or her own opinion of value*
6003 *as part of the appraisal review assignment results. However, changes to the*
6004 *report content by the reviewer to support a different value conclusion must*
6005 *match, at a minimum, the reporting requirements for a Summary Appraisal*
6006 *Report. When appropriate, the reviewer can use extraordinary assumptions*
6007 *regarding the elements of the work under review that the reviewer accepts as*
6008 *credible in support of the reviewer's value opinion. Elements of the work under*
6009 *review that the reviewer does not deem credible or in compliance must be*
6010 *replaced with information or analysis by the reviewer in developing his or her*
6011 *value opinion.*

6012 USPAP References: Standards Rules 3-1(c)–(g)
6013 Standards Rule 3-2(d)
6014 USPAP Guidance: Advisory Opinion AO-20, *An Appraisal Review*
6015 *Assignment*
6016 *That Includes the Reviewer's Own Opinion of Value*

6017 **2. Failing to meet minimum USPAP reporting requirements for an institution**
6018 **that requires USPAP Standard 3 reviews**

6019 *An appraiser functioning as reviewer has the obligation to include information in*
6020 *the appraisal review report as required in Standards Rules 3-2 and 3-3.*

6021 USPAP References: Standards Rule 3-2
6022 Standards Rule 3-3

6023 **G. CONCLUSIONS:**

6024 • General USPAP Compliance Questions

Appraisers are bound to comply with USPAP in performing assignments where the intended user of the assignment results is a federally insured depository institution and the intended use is in a federally related transaction. Competency to perform an assignment includes the ability to complete the assignment in compliance with USPAP and any supplemental standards that the appraiser agrees are applicable in the assignment at the time the assignment is accepted by the appraiser.

6032 *An appraiser accepting an assignment to be performed under the agencies' appraisal*
6033 *regulations and guidelines is obligated to complete that assignment in a manner that*
6034 *complies with USPAP and the supplemental standards included in the agencies'*
6035 *appraisal regulations and guidelines.*

6036 *Accepting an assignment that the appraiser knowingly cannot complete in compliance*
6037 *with USPAP and the agencies' appraisal regulations and guidelines that the appraiser*
6038 *agreed to in accepting the assignment violates the ETHICS RULE.*

6039 Failure to complete the assignment competently, in accordance with the applicable
6040 USPAP requirements and supplemental standards the appraiser agreed to in accepting
6041 the assignment, violates the COMPETENCY RULE.

6042 • **Appraiser Independence Issues**

6044 *The agencies' appraisal regulations, which supplement USPAP, do not permit an*
6045 *appraiser to accept an assignment involving a property or transaction in which the*
6046 *appraiser has a direct or indirect interest, financial or otherwise. If an appraiser who has*
6047 *such an interest violates the agencies' appraisal regulations by accepting such an*
6048 *assignment, he or she violates the SUPPLEMENTAL STANDARDS RULE.*

6049 *Altering a report in a manner that conceals the original client or intended users in the*
6050 *assignment is misleading and violates the Conduct section of the ETHICS RULE.*

6051 • **Scope of Work Issues—Misusing the SCOPE OF WORK RULE**

6053 Failure to determine and complete the scope of work necessary to develop credible
6054 assignment results violates the SCOPE OF WORK RULE and Standards Rule 1-2(h).

6055 Failure to explain the reason for excluding the sales comparison approach, cost
6056 approach, or income approach violates the applicable reporting rules [SR 2-2(a) or
6057 (b)(vii)].

6058 • **Using Hypothetical Conditions**

6059 *The agencies' appraisal regulations require sufficient information and analysis to*
6060 *support the regulated institution's decision to engage in the transaction. The agencies'*
6061 *guidelines state that for federally related transactions, an appraisal is to include the*
6062 *current market value of the property in its actual physical condition and subject to the*
6063 *zoning in effect as of the date of the appraisal.*

6064 *When such an appraisal with a current date of value is based on a hypothetical condition,*
6065 *the information in the appraisal report must include the appraiser's opinion of the*
6066 *current market value of the property in its actual physical condition and subject to the*
6067 *zoning in effect as of the date of the appraisal (current date of value). If, by failing to*
6068 *provide this opinion when possible, an appraiser violates the agencies' appraisal*
6069 *regulation and guidelines, the appraiser violates the SUPPLEMENTAL STANDARDS*
6070 *RULE. If it is not possible to provide an opinion as to the current market value of the*
6071 *property in its actual physical condition and subject to the zoning in effect as of the date*
6072 *of the appraisal, the appraiser must clearly explain the circumstances and reasons why*
6073 *such an opinion could not be developed and reported.*

6074 • **Analysis Issues**

6075 *Failing to include in the scope of work sufficient market trend research and analyses to*
6076 *develop credible results violates Standards Rules 1-1(a) and (b) and Standards Rule 1-*
6077 *2(h).*

6078 *If an appraiser violates the agencies' appraisal regulations by failure to conduct*
6079 *sufficient research and analysis of market area trend data or failure to include the result*
6080 *of such analysis in the appraisal report, an appraiser thus violates the SUPPLEMENTAL*
6081 *STANDARDS RULE.*

6082 *If an appraiser violates the agencies' appraisal regulations by failure to complete*
6083 *sufficient research and analysis of market area trends affecting rental and expense levels*
6084 *and relationships in an appraisal of income-producing commercial real estate in which*
6085 *an income approach was completed, or failure to include the result of such analysis in*
6086 *the appraisal report, the appraiser thus violates the SUPPLEMENTAL STANDARDS*
6087 *RULE.*

6088 *When developing an opinion of market value, using sales that are not arm's length is not*
6089 *acceptable appraisal practice if an adequate number of relevant arm's length sales are*
6090 *available for analysis. If market conditions result in the necessity to use sales that are not*
6091 *arm's length in an appraisal, the sale analysis must identify and apply appropriate*
6092 *adjustments to result in a value indication consistent with the terms and conditions of*
6093 *sale set forth in the market value definition applicable in the assignment.*

6094 *It is inappropriate to value a subdivision or tract development project by adding together*
6095 *the values for the individual units of finished production. It is misleading to report the*
6096 *sum of the values for individual units of production as the market value of the subdivision*
6097 *or tract development project.*

6098 *The use of non-market-based time constraints when analyzing a property produces a*
6099 *result that is not market value. When an assignment includes client-specified marketing,*
6100 *sale, or acquisition conditions that are distinct from typical market conditions, it is*
6101 *misleading to label the result a market value opinion.*

6102 *When the intended use of assignment results is for tract development project financing*
6103 *and a market value opinion is developed by use of a discounted cash flow analysis*
6104 *(DCF), the DCF analyses must include appropriate market-based deductions and*
6105 *discounts to reflect market value (present worth).*

6106 *When the subject of the appraisal is a proposed project and an analysis method is a*
6107 *DCF, or other methods that involve discounting, the time frame over which discounting*
6108 *occurs must be consistent with the project's overall production and completed unit*
6109 *absorption period. The factors applied should be market-derived and must reflect the*
6110 *market's anticipated response to the difference between the date of value and receipt of*
6111 *the cash flows, project risk, and market trends, not only the time-value of money.*

6112 *An appraiser must take all reasonable steps to gather and verify relevant information*
6113 *concerning the subject property's current market activity and marketing history. The*
6114 *time-frame cited in Standards Rule 1-5(b) is a minimum requirement. If market activity*
6115 *concerning the subject property from prior periods is known and relevant, it should also*
6116 *be analyzed and addressed. The requirement is for an analysis of all sales that occurred*
6117 *in the minimum time-frame, not just the most recent sale. The summary of the sales'*
6118 *analyses reported in compliance with the Comment to Standards Rule 2-2(a) or (b)(viii)*
6119 *must include data sufficient to identify each relevant prior sale of the subject, including*
6120 *(when available) sale date, amount, type and terms of financing if any, and the seller and*
6121 *buyer. If relevant and necessary to a proper understanding of the sale, the conditions of*
6122 *sale and the property condition at sale must also be reported.*

6123 • **Appraisal Review Issues**

6124 *An appraiser functioning as reviewer may state his or her own opinion of value as part of*
6125 *the appraisal review assignment results. However, changes to the report content by the*
6126 *reviewer to support a different value conclusion must match, at a minimum, the reporting*
6127 *requirements for a Summary Appraisal Report.*

6128 *An appraiser functioning as reviewer has the obligation to include information in the*
6129 *appraisal review report as required in Standards Rule 3-2 and 3-3.*

6130 Adopted July 10, 2000

Revised XXXXXXXX

6131